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THE WORKING OF THE PROTECTIVE TARIFF IN INDIA

Sir Kikabhai Premchand Readership Lectures

1938-39

BY

L. C. JAIN, M.A., D.Sc., Ph.D., LL.B.,

University Professor of Economics (Punjab); Member, Indian Tariff Board (1937-38); Commissioner on Textile Quotas and Preference Duties, Ceylon Government (1939); Author of Indigenous Banking in India, Monetary Problems of India, Reserve Bank of India.

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PREFACE

First of all I wish to express my obligation to the University of Delhi for inviting me to deliver Sir Kikabhai Premchand Readership Lectures early in 1939 and for publishing them. I regret the delay in their publication, somewhat unavoidable owing to the fact that soon after these lectures were delivered I was engaged by the Ceylon Government as the sole Commissioner to investigate the effects on Ceylon of (*a*) the Textile Quotas and (*b*) the Preference Duties.

I must also record my indebtedness to my pupils Messrs V. K. Chopra and H.C. Saxena, University Research Scholar and Lecturer in Economics respectively and Dr. D.C. Ghose, Lecturer in F.C. College, for much valuable assistance in the collection of material and to my friends Messrs Labhu Ram and Ram Labhaya, the obliging Librarians of the University and Public Libraries at Lahore for the readiness with which they met all my demands.

"Koskak",
Mussoorie.
July 20, 1940.

L. C. JAIN.

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LECTURE I

EVOLUTION OF PROTECTIVE TARIFF IN INDIA.

I must first express my gratitude to the University of Delhi not only for the great honour they have done me personally, but also for giving me an opportunity to speak on the "Working of Protective Tariff in India"—a subject of the most vital importance to the future industrialisation of India.

When in 1928 the Patna University had invited Prof. V.G. Kale—the veteran economist on the first Indian Tariff Board—to deliver the Banaili Readership lectures on the subject of Protective Tariffs, Protection in India was in its infancy and he, therefore, quite rightly chose as his theme the Economics of Protection[1]. Fifteen years have now elapsed since the beginning of protection in the country, and the time is most appropriate to make a dispassionate review of protection in practice, for at least three reasons:

In the first place, during the period, a good deal of valuable material dealing with a variety of industries has been collected by the Tariff Boards which awaits careful analysis and interpretation. Secondly, at a time when India is gaining political power it is most important to take stock of the past and the present, so as to make a scientific plan[2] for the future. And thirdly, apart from India, the economics of protection itself has undergone a momentous change in its application after the recent economic depression and countries which, at one time, would not touch protection with a pair of tongs have given up their old hatred and now seem to be all in love with it.

An impartial survey of both the policy and practice of protection is thus essential for future progress, and the analysis of the operation of tariffs and their effects is essentially the task of an economist. But my qualification for undertaking it is not much—of all the economist members of Tariff Boards, I am the youngest and my experience least

1. See *Economics of Protection* by Prof. V. G. Kale, 1929.
2. All the provincial governments have expressed their keenness for a programme of economic development, while the All-India Congress Committee has set up an Economic Planning Committee under the Presidentship of Pt. Jawahar Lal Nehru.

though latest. It may, however, be said that being young, I am better able to enter into the lives and aspirations of the Indian industries which also are young. For that reason I may detect their faults and failings more easily and tackle them perhaps more freely.

Fiscal Policy.—The policy of protective tariffs in India dates from 1923. Before the War the fiscal policy of India, much to the dissatisfaction of her people[1], was based primarily on revenue considerations and controlled definitely by the Secretary of State for India without regard for the industrial development of the country.

Indian View.—The need for securing full fiscal autonomy to the Government of India, specially in reference to import, export and excise duties was specially stressed by the Hon'ble Sir Ibrahim Rahimtoola, in a resolution which he moved in the then Imperial Legislative Council on the 21st March, 1916 for the appointment of a Committee to consider ways and means for the growth of industries in India. Speaking for the resolution Sir Ibrahim observed:

> "I readily recognise that efforts are being made by the Government in many directions to meet the needs of the situation. It appears to me, however, that, unless the hands of the Imperial Government are free in fiscal matters, the results will not be adequate. If the Government of India were free to adopt measures solely in the interests of the people of this country, without any restrictions or limitations in fiscal matters, our industrial development would be in a fair way of successful accomplishment. India wants fiscal regeneration, and if Indian public opinion is to have any weight in the determination of this question, we ought to get it at once.[2]"

Government Position.—The Hon'ble Member for Commerce, Sir William Clark on behalf of the Government, accepted the resolution, but pointed out that the fiscal relationships of all parts of the Empire as between one another and the rest of the world, must be reconsidered after the War. Accordingly the Indian Industrial Commission was appointed in 1916, but the fiscal policy of the Government of India was excluded from its terms of reference.

Montagu-Chelmsford Report.—The matter was considered by the then Secretary of State and the Viceroy in connection with the constitutional reforms for India in 1919 and no apology need be made for reproducing the following extract from the joint-report:

> "Connected intimately with the matter of industries is the question of the Indian tariff. This subject was excluded from the delibera-

1. Mr. Gokhale called the fiscal policy forced on India as "the darkest spot in the administration of India."
2. *Imperial Legislative Council Debates* (Official Report), 21st March, 1916.

tions of the Industrial Commission now sitting, because it was not desirable at that juncture to raise any question of the modification of India's fiscal policy; but its exclusion was none the less the object of some legitimate criticism in India. The changes which we propose in the Government of India will still leave the settlement of India's tariff in the hands of Government amenable to Parliament and the Secretary of State; but inasmuch as the tariff reacts on many matters which will henceforth come more and more under Indian control, we think it well that we should put forward for the information of His Majesty's Government the views of educated Indians upon this subject. We have no immediate proposals to make; we are anxious merely that any decisions which may hereafter be taken should be taken with full appreciation of educated Indian opinion.

"The theoretical free trader, we believe, hardly exists in India at present. As was shown by the debates in the Indian Legislative Council in March 1913, educated Indian opinion ardently desires a tariff. It rightly wishes to find another substantial base than that of the land for Indian revenues, and it turns to a tariff to provide one. Desiring industries which will give him Indian-made clothes to wear and Indian-made articles to use, the educated Indian looks to the example of other countries which have relied on tariffs, and seizes on the admission of even free traders that for the nourishment of nascent industries a tariff is permissible. We do not know whether he pauses to reflect that these industries will be largely financed by foreign capital attracted by the tariff, although we have evidence that he has not learned to appreciate the advantages of foreign capital. But whatever economic fallacy underlies his reasoning, these are his firm beliefs; and though he may be willing to concede the possibility that he is wrong, he will not readily concede that it is our business to decide the matter for him. He believes that as long as we continue to decide for him we shall decide in the interests of England and not according to his wishes; and he points to the debate in the House of Commons on the differentiation of the cotton excise in support of his contention. So long as the people who refuse India protection are interested in manufactures with which India might compete, Indian opinion cannot bring itself to believe that the refusal is disinterested or dictated by care for the best interests of India."

Fiscal Autonomy Convention.—The Joint Select Committee on the Government of India Bill in their Report submitted on the 17th November, 1919 made an important recommendation :

"This examination of the general proposition leads inevitably to the consideration of one special case of non-intervention. Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of the trade of Great Britain. That such a belief exists at the moment there can be no doubt. That there ought to be no room for it in the future is equally clear. India's position in the Imperial Conference opened the door to negotiation between India and the rest of the Empire, but negotiation without power to legislate is likely to remain ineffective. A satisfactory solution of the question can only be guaranteed by the grant of liberty to the

Government of India to devise those tariff arrangements which seem best fitted to India's needs as an integral portion of the British Empire. It cannot be guaranteed by statute without limiting the ultimate power of Parliament to control the administration of India, and without limiting the power of veto which rests in the Crown; and neither of these limitations finds a place in any of the statutes in the British Empire. It can only therefore be assured by an acknowledgment of a convention. Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty, to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa. In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party."

The British Government was not long in accepting the principle of fiscal autonomy for India. In February 1921 a resolution moved on the subject by the Hon'ble Mr. Lalubhai Samaldas was passed by the Council of State and on the 23rd March, 1921 the Secretary of State replying to a deputation from Lancashire on the Indian import duties on Cotton goods said, "After that Report by an authoritative Committee of both Houses and Lord Curzon's promise in the House of Lords, it was absolutely impossible for me to interfere with the right which I believe was wisely given and which I am determined to maintain—to give to the Government of India the right to consider the interests of India first, just as we, without any complaint from any other parts of the Empire, and the other parts of the Empire without any complaint from us, have always chosen the tariff arrangements which they think best fitted for their needs, thinking of their own citizens first."

This statement of policy was followed by its formal enunciation in a Despatch dated the 30th June, 1921.

Fiscal Commission.—The acceptance of the principle of fiscal autonomy for India[1] necessitated the determination of a suitable tariff policy and with this end in view, on the 7th October, 1921, a Fiscal Commission was appointed with Sir Ibrahim Rahimtoola and

1. Speaking in the Indian Legislative Assembly the Hon'ble Sir Basil Blackett stated: "I accept whole-heartedly the doctrine that it is India's right to decide what fiscal policy she shall have, and so long as I remain a Member of the Government of India I shall whole-heartedly attempt to assist in the introduction of the policy which India had chosen". (Assembly Debates, Op. cit., p. 2388).

Mr. J. M. Keynes[1] as President and Vice-President respectively and ten members of whom six were Indians and four non-Indians.

In the opinion of the Commission the industrial development of India had not been commensurate with the size of the country, its population and its natural resources. "We have considered," they said, "generally the advantages and the possible disadvantages which would attach to a considerable development of Indian industries. We have no hesitation in holding that such a development would be very much to the advantage of the country as a whole, creating new sources of wealth, encouraging the accumulation of capital enlarging the public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture, and finally stimulating the national life and developing the national character[2] ".

The Commission found a general conviction in favour of protective tariff not only among the industrialists who stood to gain, but even among traders and other classes whose immediate interests might seem likely to suffer. Such feeling was undoubtedly rooted in the patriotism of the people who ardently desired to see their country prosper and was stimulated by the example of other countries. According to the Fiscal Commission, (Para 58 of their Report): "With the exception of the United Kingdom all the great industrial nations of the world shelter their industries behind a protective wall, and claim to owe their prosperity to the tariff protection which they enjoy. The general movement in Europe towards free trade, which appeared to be setting in with the conclusion of the famous commercial treaty between England and France in 1860, lasted only for a few years, and was followed by a strong reaction never perhaps stronger than in recent years, towards protection. In 1879 Germany definitely adopted a policy of protection, from which she has never departed, and under which she had made up to the outbreak of the war astonishing industrial progress. In 1881 France turned her back on the free trade tendencies which had never really met with popular approval. In 1899 Japan, freed from the trammels of the treaty restrictions, utilized her autonomy to establish a protective tariff, which was considerably intensified in 1911. The United States, industrially one of the foremost countries in the world, has had ever

1. Mr. Keynes came to India for a very brief period, but unfortunately had to give up the work of the Fiscal Commission owing to other duties particularly in connection with the Genoa Conference.

2. Report of the Indian Fiscal Commission, 1922.

since the time of the Civil War a very high protective tariff, and at the present moment appears to contemplate raising it still higher. The British Dominions too have without exception utilized the right of framing their tariff policies in their own interests to protect their industries by high duties".

After a full survey of the position, the main conclusion of the Commission was that the adoption of a policy of protection was in the best interests of India, but the policy was to be applied with discrimination subject to the following conditions[1] (Clause 97 of their report):

1. The industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, or a large home market. Such advantages will be of different relative importance in different industries, but they should all be weighed and their relative importance assessed. The successful industries of the world possess certain comparative advantages to which they owe their success. No industry which does not possess some comparative advantages will be able to compete with them on equal terms, and therefore the natural advantages possessed by an Indian industry should be analysed carefully, in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community.

2. The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. This is an obvious corollary from the principles which have led us to recommend protection. The main object of potection is either to develop industries which otherwise would not be developed or to develop them with greater rapidity.

3. The industry must be one which will eventually be able to face world competition without protection. In forming an estimate of the probabilities of this condition being fulfilled the natural advantages referred to in condition (1) will of course be considered carefully. The importance of this condition is obvious. The protection we contemplate is a temporary protection to be given to industries which will eventually be able to stand alone.

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1. The President and four Indian members of the Commission recorded their opinion in a Minute of Dissent that 'there should be an unqualified pronouncement that the fiscal policy best suited for India is Protection'. (See Minute of Dissent to Report of Indian Fiscal Commission, 1922, paras 4-7, pp. 176-178.)

Action on the Report of Fiscal Commission.—The question of protective tariff was taken up in the Indian Legislature on the resolution of Mr. Jamnadas Dwarkadas urging 'that a policy of protection be adopted as the one best suited to the interests of India, its application being regulated from time to time by such discrimination as may be considered necessary by the Government of India with the consent and approval of the Indian Legislature[1]'.

The principal opposition was voiced by Mr. Townsend and Sardar Bahadur Gajjan Singh and by Mr. N. B. Joshi. The first two nominated members of the Punjab were afraid that, 'a policy of protection will impoverish the agriculturists who form a great majority of our people at the expense of those parts of India which are already manufacturing centres, as Bombay and Calcutta[2]'.

Mr. Joshi was against protection, because he thought it would put money into the pockets of industrialists, which might be misspent, it would unduly encourage bad industrialists, and it would raise prices and thereby put an unjustifiable or, at any rate, disproportionately high burden upon the poorer classes[3].

Another serious objection to the adoption of a protective tariff was that the time was inappropriate in view of the then international situation. The Hon'ble Mr. C. A. Innes said:

> "We have to take into account the state of affairs as it exists in the world around us and outside us. Half that world has tumbled into ruin. It no longer exists as a customer, and that means that the remaining countries, especially those countries whose prosperity is bound up with their export trade, must fight more desperately than ever for the markets which still remain open to them. Moreover, in those countries, the potential productive industrial capacity has increased enormously owing to intensive reorganisation and extension during the War. Now those countries are faced with the spectre of unemployment. The manufacturers are fighting with their backs to the wall merely to keep their works open and their men employed. The workmen are accepting reductions in wages. Owners are foregoing profits. Shareholders are going without dividends, and vast reserves of inherited skill, aptitude and efficiency are being mobilised all to one end, namely, the bringing down of the cost of production. That is one side of the picture. It shows the sort of competition that India has got to meet,—better directed, more intense, more efficient,—economically than ever before. On the other side, there is India. India has still to organise most of her industries; she is in most of

1. *Indian Legislative Assembly Debates* (Official Report), 16th February, 1923. pp. 2357-58.
2. *Ibid.* Mr. C. A. H. Townsend's speech, 16th February, 1923. p. 2367.
3. *Ibid.* pp. 2370-2372.

her industries confronted with that most difficult and most protracted of all tasks, the training up of a force of skilled efficient operatives.[1] ".

Government, however, realised that there was no country in the world, where the question of free trade or protection had been decided on purely economic grounds, the industrial development of India was the cherished hope of the people and the recognised aim of governmental policy, and the existing revenue tariff was demonstrably illogical.

"The stress of events has forced our revenue tariff to a point where it is no longer a pure revenue tariff, and the choice that lies before us today is the choice between a tariff with arbitrary protective effects, irregular in its action and with no certainty of continuity, and an attempt to regularise the position by remodelling that tariff, in part at any rate on frankly protectionist lines[2] ".

Protection in Action.—Having decided on a policy of discriminating protection—which can also be translated as discriminating free trade[3] —the next step was to put it in action and this was done immediately. The first Tariff Board was set up in July 1923, and since then there have been over fifty inquiries covering a wide range of industries of which the most important are iron and steel, cotton, sugar, paper, glass, coal, matches and salt. In most of these cases protection was recommended and granted and the whole policy and practice have set up a fundamental change in a society which for many generations had been relatively static. It must, therefore, be the purpose of this study to investigate into the economic and sociological effects of the working of protective duties.

Post-War Practice.—In this connection, it will be well to observe that the world setting has also recently undergone a complete change. In the past protection was advocated only in the transitional stage[4] — that is the well-known young industry argument. The present world does not render even lip service to free trade. Economic development during the post-war period has been definitely secured through protection and a policy of self-sufficiency.

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1. *Indian Legislative Assembly Debates.* (Official Report), 16th February, 1923. pp. 2357-58.
2. *Ibid,* p. 2359.
3. A prominent member of the Indian legislature once described free trade as 'a system by which the strongest and the most powerful, either financially or politically will always crush the weaker.' (Assembly Debates, 27th May, 1924, p. 2337) This certainly seems more true of the present than of any other time in the past.
4. By John Stuart Mill, List, Taussig and many other economists.

In the United Kingdom herself such a large change has come over, that from a notably free trade country she has to day a comprehensive protective tariff embracing both manufactured and agricultural products and covering nearly three-fourths of all imports. The present British economic policy is to use tariffs for the purpose of restricting imports, expanding exports and collecting debts[1].

India cannot escape this trend of world economic revolution. As Dr. L. Nemenyi pointed out in an Address to Rotary Club, Calcutta, "the abundance of raw material, the high consuming markets and the cheapness of labour pre-destine India to become a highly industrialised country in course of time[2]", and her future lies in industrialisation. According to Dr. T. E. Gregory, Economic Adviser to Government of India, "Industrialisation is the only possible solution for the apalling absolute standards of life in the East: it requires a degree of economic irrationality, of which the present writer is not capable to regard the process as on balance undesirable[3]".

The ultimate economic result of industrialisation in the West has been, both an enormous growth of population and a considerable rise in the standard of life *per capita*. Viewed in the light of Western experience "the ultimate condition for a rise in the Eastern standard of life is such a balance between population growth and technical progress as to permit of a surplus which will raise the *per capita* welfare of Eastern populations. The attainment of this surplus is theoretically possible by a drastic decline of population: given the population situation, it is only possible to solve it by means of industrialization. Nor is there anything of a sinister or pessimistic nature in this conclusion, as such. For a growing population with growing resources represents a growing market: in fact, the East is reproducing the conditions which made for the most rapid economic growth in other parts of the world in a not very remote past[4]".

1. This is a very recent change. In 1930 protective duties affected only 3 per cent. of the total imports. See Our Trade with Britain by P. W. Bidwell, New York. 1938, pp. 54-56.
2. The Capital, May 12, 1938, p. 690.
3. Eastern Industrialization and its Effect on the West, by G. E. Hubbard, 1938, p. 377.
4. Hubbard, op. cit, pp. 370-371.

LECTURE II

Protection and the Basic Industry of India.

Magnitude of the Problem.—An examination of the working of protective tariffs in India must begin with a study of its effects on Agriculture which is the basic industry of the country. According to the Census of 1931, 75 per cent. of the total population is engaged in or dependent on agriculture, and it would indeed be a serious matter, if the policy of protective tariff in its working has placed an undue burden on such a large proportion of the people.

When the principle of discriminating protection was accepted by the Indian legislature in 1923, fear was expressed by some members that protection was likely to lead to lowering of prices of exports from India and thus in the long run prove injurious to agriculture[1]. Indeed the Commerce Member of the Government of India himself observed, "if the agricultural classes which form the bulk of the population in India were fully able to grasp the issues involved in this question of free trade versus protection, and if they were able fully to bring their influence to bear upon this Assembly, I doubt very much whether this Assembly today would accept my amendment. I doubt indeed whether I should be putting that amendment forward[2] ".

Nature and Extent of Burden.—Dealing with the nature and extent of the burden of protective duties on the agricultural classes, the Fiscal Commission observed:

> "But while a policy of protection of industries may not injure the agricultural wage earner, who may be able to secure a rise in wages equal to, and in some cases greater than, the rise in the cost of living, there can be little doubt that the agricultural producer, the man who either works the land himself or employs hired labour, must suffer to some extent. Protection must mean to him a higher cost of production, arising partly from the higher cost of the implements that he uses, partly from the higher wages that he will have to pay and partly from the general rise in the cost of living. As a set off

1. Due to diminution of exports as a result, thanks to protection, of reduction of imports. See *Legislative Assembly Debates* (Official Report), Mr. Townsend's speech, 16th February, 1923, p. 2368.

2. *Ibid.* The amendment accepted the principle of discriminating protection for India.

> against this higher cost of production it is probable that in the neighbourhood of industrial centres the demand for agricultural produce will raise the price. But in general one or two results seems likley to follow. Either the agricultural producer will not receive for his produce an increased price which will fully compensate him for the increased cost of production, in which case agricultural interests would suffer and there would be a tendency for marginal land to go out of cultivation; or the price of agricultural produce will be raised generally to cover the increased cost of production with injurious effects on the mass of the population[1] ".

> On the other hand, the Commission concluded that if protection was applied with discrimination, "we do not think that the burden imposed, either on the agricultural producer or, through a rise in the prices of agricultural produce, on the consumer in general, need be sufficient to make us hesitate regarding the net advantages of the policy we recommend[2] ".

Need for Balanced Economy.—In fact a policy of protective tariffs was accepted by the Indian Legislature, because it was realised that India was rich in raw materials and the industrialisation of the country would result not only in an all round increase in wealth, but would ultimately bring greater prosperity to agriculture[3].

In the words of Professor A. C. Pigou: "The case for protection with a view to building up productive power is strong in any agricultural country which seems to possess natural advantages for manufacturing. In such a country the immediate loss arising from the check to the exchange of native produce for foreign manufactures may well be outweighed by the gain from the greater rapidity with which the home manufacturing power is developed. The "crutches to teach the new manufactures to walk", as Colbert called protective duties, may teach them this so much earlier than they would have learnt it, if left to themselves, that the cost of the crutches is more than repaid[4] ".

The matter was raised specifically in the Legislature on the discussion of the Indian Steel Protection Bill in 1924. The issue was lucidly put in a nutshell by Sir Purshotamdas Thakurdas:

> "After all, if agriculturists comprise 75 per cent. of the total population of this country, and if the policy of protection means the policy of a certain burden on the present generation in order that the future generations may derive the fullest benefit of that policy, may I ask my Honourable friend from the Punjab whether he thinks that

1. *Report of the Indian Fiscal Commission,* 1922, pp. 44-45.
2. *Ibid.*
3. *Indian Legislative Assembly Debates, (Official Report),* Speech by the Hon'ble Mr. Jamandas Dwarkadas, February, 1923, p. 2403.
4. *Indian Economics* by Jathar and Beri, 1939, Vol. I, p. 1.

75 per cent. of the people can possibly be excluded from that burden? I fully agree with him and, in fact, I will be one of the loudest to oppose any measure which threw on the agriculturists a burden out of proportion either to their capacity or out of proportion to that they, in the opinion of this House, can safely be asked to pay. But to say that the agriculturists should not be taxed even to the extent of less than one anna per head, as said in paragraph 125 of the Tariff Board Report, is not what I believe my Honourable friend from the Punjab really wishes this House to accept. I think the whole discussion on this subject should be crystallised in a few words. Do we want the policy of protection, protection meaning burden on the present generation in the hope that the benefit thereof will come with compound interest, to the future generations as has been the case in other countries, provided the correct policy is carried through?[1] "

The policy of the Government was clear, and based on irrefutable reasoning. It was realised that a policy of protection involved a certain amount of burden on all members of the society including the agriculturists but it was a price they agreed to pay, as other countries had paid, to secure a balanced economy[2] without which there could be no true economic progress. Added support has been lent to this policy by the large increase in Indian population[3] and the marked backwardness of Indian agriculture in recent years. Speaking on the application of the principle of protection to the Indian iron and steel industry, Sir Basil Blackett as Finance Member pointed out:

"The Government of India are introducing it because they are convinced that, on the whole, it is desirable in the general interests of India to build up not merely a steel industry, which is already founded, but from that to go on to build up an industrial system in India with other industries increasingly numerous and increasingly strong, to get away from what might be called the somewhat lopsided development of the India of today. In the India of today I do not say there is too much agriculture; that would be impossible; but there is too little industry in proportion to the agriculture.[4] "

Assembly vigilant of Agricultural interests.—Since then whenever the question of protection to an Indian industry has arisen, the Indian legislature has been consistently vigilant in safe-guarding the interests of Indian agriculture. For instance, in spite of Government opposition, the Assembly refused to enhance the duty on certain classes

1. *Indian Legislative Assembly Debates,* (Official Report), 24th June, 1924, p. 2467.
2. See the *Presidential Addresses* delivered by the Hon'ble Mr. Manohar Lal at the Indian Economic Conference, Dacca, in December, 1935, and by Dr. P. J. Thomas at Hyderabad in December, 1937.
3. According to the Census of 1931 the population of India was 352 millions. The current estimate is of 400 millions.

of agricultural implements in the Steel Industry Protection Legislation (Act XIV) of 1924.

Turning to the objections raised above from the point of view of agriculture, the questions which should be tackled are: How far has protection led to a rise in prices and thereby adversely affected the consumers in general and the agriculturists in particular ? Have wages of agricultural labourers lagged behind rise in prices and if so to what extent ? How far have the prices of agricultural produce declined owing to reduction in imports which protection has caused ?

Fall in Prices.—A policy of protection suggests *prima facie* a rise in prices, but owing to world factors—monetary and non-monetary-prices in India have in common with other countries experienced large changes during the last three decades. Taking the index number of prices in India as 100 in 1914 prices had doubled (201) by 1920, but since then there has been a continuous fall. In 1923, the year of the introduction of protection the index number had fallen to 172, there was a rise by one point in the following year, but in 1925 the index number was 159, in 1929 it was 141, and by March 1931 it had fallen to the pre-war level of 100. Since then the variations have been as under[1] :

1932	March	... 91.
1933	March	... 87.
1934	March	... 89.
1935	March	... 91.
1936	March	... 91.
1937	March	...102.
1938	March	... 96.

As will be seen the index number had risen appreciably in 1937, but lost six points by March 1938.

Greater Fall in Agricultural Prices.—The fall in prices was greater in India than in England and greater in agricultural commodities than in the manufactured articles. As pointed by Mrs. Anstey[2] the rise in prices before the War was greater in the case of exports (jute 43 %, hides and skins 59 %, oil seeds 45 %, food grains 42 %) than in the case of imports (cotton manufactures 25 %, metals 20 %) with the result that it benefited a large number of agriculturists.

1. *Review of the Trade of India*, 1938, p. 59.
2. See her *Economic Development of India*. London. 1937.

But during the last fifteen years the process has been reversed much to the hurt of the agriculturist. In 1936 there was some improvement and by the spring of 1937 agricultural prices experienced a boom, but since then there has been a set back, the fall being more than 25% in most cases in a period of only a few months. "Thus, raw cotton declined from March 1937 to October 1937 by 33 per cent. and raw jute fell off in value from May 1937 to March 1938 by 25 per cent. Wheat, which reached its highest level in April 1937 dropped by 35 per cent. in March 1938 and tea by 16 per cent. in about the same period. Prices of groundnut were highest in August 1936; since then they declined almost continuously, the quotation in March 1938 being 41 per cent below the highest level or 35 per cent below the level in March 1937. The price of rice was fairly steady throghout 1937-38 and the preceding year, and that of linseed was, on the average, higher in the year under review than during 1936-37. But these apparent deviations from the general trend were due to crop and other factors peculiar to these commodities. On the whole, the year under review witnessed a steep fall in the prices of India's staple agricultural products[1] ".

The Indian cultivator has been badly hit; while his income has shrunk, his expenditure has not fallen in the same proportion and the burden of debt has even increased On the other hand, it may be pointed out that the recent debt legislation has certainly reduced the incidence of debt and while prices have fallen, agricultural production has tended to increase. To the extent to which there is over-production it has depressed prices, but in so far as the protected industries have consumed large and increasing quantities of raw material, they have tended to stem the tide of a fall in prices and acted as a welcome brake to the consequences of abnormal world factors.

The Lesson of the Depression.—It will thus be seen that the catastrophic fall in prices has little to do with the working of Protective tariff in India. The position on the whole would have been equally bad, if not worse, if there was no protection to Indian industries. The disparity between the prices in agricultural commodities and those of manufactured articles has an important lesson for India. Since agricultural countries are more seriously affected by the movement of agricultural prices, whereas conditions in industrial countries respond better to the changes in industrial prices, it is highly desirable that India should become rapidly

industrialised. In so far as protection is an instrument for such industrialisation it must in the long run make a valuable contribution to the general economic welfare of the country which includes agriculturists and non-agriculturists alike. Thus the conclusion is obvious, namely, that it is in the interests of the agriculturists themselves that there should be a sufficient advance in industry so as to make a balanced economy to which reference has already been made.

Cost of Living.—Turning to the question of cost of living, it is a matter of regret that no indices are available for any villages, and even in regard to urban areas no indices exist for Calcutta, Madras, Cawnpore, Delhi and Lahore. It is impossible, therefore, to give a complete idea of the general changes in the cost of living in India during the last 10 or 15 years. The following figures given in the latest Review of Indian Trade give some indication of variations in the urban cost of living:

Cost of Living Index Numbers for Bombay, Ahmedabad, Jharia and Jamshedpur Centres during the period 1928-29 to 1936-37.*

	Bombay (Base Ju y 1914 = 100)	Ahmedabad (Year ending July 1927 = 100)	Jharia (5 years preceding 1914 = 100)	Jamshedpur (average for 5 years preceding 1914 = 100)
1928-29 Average	147	96	175	177
1929-30 ,, ...	147	95	164	170
1930-31 ,, ...	129	83	142	138
1931-32 ,, ...	109	75	117	117
1932-33 ,, ...	108	75	106	112
1933-34 ,, ...	100	71	94	105
1934-35 ,, ...	98	71	102	107
1935-36 ,, ...	102	71	104	109
1936-37 ,, ...	102	72	103	107
1937-38 ,, ...	105**	75	100	106

From the above table it will appear that the cost of living index number for Bombay having risen from 100 in 1914 to 147 in 1928,

*_Review of the Trade of India_, 1937-38, p. 63.

**Converted figure.

fell to the pre-war level in 1933-34 and dropped further to 98 in 1934-35. Since then the index number has slightly risen. The general indication seems to be that the cost of living has fallen during the last seven or eight years in the urban areas, and this seems to be even more true of the villages, because the villagers do not yet consume to any appreciable extent the imported articles.

From such statistical material, as is available, it appears that the agriculturist has suffered from the world depression, but does not appear to have suffered because of the improvement in Indian industries as a result of protection. Indeed, the various agricultural commodities have improved both in quantity and quality, and several protected industries have afforded them a ready and large market at home. This is particularly the case with sugar-cane and cotton—two important crops of India.

Protection and Sugar-cane.—In the case of sugar the main ground for protection to the industry was based on the need for strengthening Indian agriculture.[1] Indeed the application for granting protection to the sugar industry was made by the Imperial Council of Agricultural Research on the representation of several provincial governments whose very finances were in danger owing to the heavy fall in agricultural prices. The importance of sugar-cane in the agricultural system of India was reviewed by the Indian Tariff Board in the following words:

> "It will be useful here to summarize our conclusions regarding the importance of cane cultivation in the agricultural system of India. Sugar-cane occupies a definite place in the crop rotation of this country which it would be difficult to fill if any considerable reduction in the area occurred. Its cultivation is followed by increased yields of other crops sown in rotation with it, partly as a result of the residual effect of the manure used in cane cultivation, but largely also on account of the thorough stirring up and aeration of the soil which is a feature of the intensive cultivation required if heavy crops are to be obtained. It is also of great importance as a source of cattle fodder at a time when the supply of grass has begun to decline. At all times it occupies a prominent position in agricultural economy as being one of the few crops on which the cultivator relies to meet his cash requirements and at the present time, when the prices of other agricultural products have fallen to very low levels, the importance of maintaining the area under cane and its prices cannot be over-estimated. The payment of rent and irrigation dues depends to no small extent on this crop and any serious setback to its cultivation would not be without effect on the finances of at

1. "The strongest aspect of the case for protection is that based upon the national importance of promoting the cultivation of sugar-cane." *Report of the Indian Tariff Board,* 1931, para 26.

> least some of the local Governments. The development of well irrigation as a condition precedent to intensive cultivation would present serious difficulties if no cane were grown and in the heavily populated tracts its cultivation may be regarded as essential to agricultural improvement. Finally it is the one crop for which, if it can be utilized for the manufacture of white sugar, the home market is more than sufficient. While it is beyond the power of Government to control the prices of other agricultural products, since these depend on world conditions, in the case of cane it is possible to ensure the maintenance of a reasonable price level by protecting the *gur* market against foreign competition and by providing an outlet for any surplus cane produced by the development of the white sugar industry.[1] "

The Board estimated in 1931 that nearly fifteen million people were directly concerned in the cultivation of sugar-cane. In 1939 the figure may be estimated at twenty millions.

Cane Development and Prices.—Since the granting of protection to the sugar industry, the area under sugar-cane has increased from 2,727,000 in 1928-29 to 4,285,178 acres in 1936-37 and the average yield has nearly doubled. At the same time, the quality of cane has also considerably improved, thanks to research work and experiments. The total area under improved varieties of cane in India in 1935-36 was estimated to be 3,071,000 acres representing 74 per cent. of the total cane area under the country and bids fair to cover all of it.

The price of sugar-cane in 1931 in the United Provinces[2] was $3\frac{3}{4}$ as., while today it is 7 as. In this way it would appear that the wealth of the people has considerably increased in the United Provinces and Bihar.

It was feared as a result of protection that the agriculturist would suffer to benefit the industrialist and that money from the village would be spent on the town. In this connection Dr. H. L. Dey observed : "Since the agricultural workers form by far the largest single, and at the same time the least educated, the least resourceful, and the least organised economic group in the country, who often fall easy and helpless victims not only to the natural calamities like floods, famines, and epidemics, but also to the exploitative activities of the more intelligent, shrewd and powerful social classes within the country, the well-known socio-economic maxim of the greatest good of the greatest number would seem clearly to demand, not that this worst-off

1. *Report of the Indian Tariff Board* on the Sugar Industry, 1931, para 32, pp. 41-42.
2. U. P. has half the total Indian acreage under sugar-cane production.

group should be made to suffer a loss of wealth and welfare for the benefit of the better-off classes, as is sought to be done under a policy of protective tariffs, but that the latter should be required to contribute towards ameliorating the far too unsatisfactory economic conditions of the former[1] ".

In actual fact what has happened at least in the case of sugar industry is that there has been a considerable rise in the price of sugar-cane resulting in a rise in the price of sugar and as a large part of sugar is consumed in urban areas the townsfolk are paying for the benefit of their fellow villagers.

Cotton.—Similarly in the case of cotton, with the progress of the cotton textile industry, the cultivation of raw cotton which is the most important money crop of the country has improved both in quantity and quality. In 1923-24 the area under cotton in British India was 15,318,000 acres, in 1936-37 it was 25,219,000 acres. At the same time, there has been noteworthy improvement in the quality and some of the recent types like the Punjab-American and Madras Combodia are now used with success for spinning yarns of higher count. To ensure effective link between the Agricultural Department and the Cotton Trade the Central Cotton Committee was formed in 1921. The Committee has established a technological laboratory in Bombay for experiments and research and at the same time is financing a number of research schemes on cotton in several provinces. The Committee gets its funds from the proceeds of a small cess of two annas per bale on all cotton used in mills in British India and exported abroad. The future need is to develop new varieties of cotton so as to dispense with the imports of better quality cotton goods as well. In the matter of yield also, India is a good way behind with only 100 lbs. as compared with 246 lbs. per acre in America.

Increase in Home Consumption.—The purchase of Indian raw cotton by the United Kingdom and Japan has been an important feature of the existing trade agreements between India and these countries. The purchase by United Kingdom under the Mody-Clare Lees Agreement was raised from 137,315 bales in 1931-32 to 643,227 bales in 1936-37. Actually the exports of Indian Cotton to the United Kingdom during the year ending 31st August, 1937 amounted to 593,000 bales (400 lbs. each[2]).

1. *The Indian Tariff Problem* by Dr. H. L. Dey, London, 1933, p. 31.
2. *The Capital*, 28th July, 1938, p. 117.

Scientific Research and Agriculture.—Thus it will appear that as a result of protective tariff, at least in the case of two major crops of the country, old methods are giving way to new, and teachings of modern science are being applied even to agriculture. The sugar and cotton industries have not only brought about enormous improvement in sugar-cane and cotton cultivation, but have given a strong impetus to agricultural research. The Imperial Council of Agricultural Research under the able leadership of its first Vice-Chairman, Sir T. Vijayaraghavacharya has done very valuable work, and research in sugar and cotton themselves have been of great benefit to other crops. But while much has been accomplished during the last ten years, as evidenced from the recent report of Sir John Russell, much more still remains to be done, and the industrial development of India in a number of industries depends more than any thing else on her agricultural development.

LECTURE III

PROTECTION AND LARGE SCALE INDUSTRIES

IRON AND STEEL

First Tariff Board.—The first Tariff Board in India was appointed in July 1923 with Mr. G. Rainy as President and Mr. P. P. Ginwala and Professor V. G. Kale as Members and the first inquiry referred to them as recommended by the Fiscal Commission, was in regard to Iron and Steel—a key industry of vital importance to the country.

Imports.—In the early days the imports of iron and steel were negligible, but with the establishment of cotton and jute mills they rose to Rs. 154 lakhs in 1868-69, to Rs. 400 lakhs in 1897-98, and to Rs. 1601 lakhs[1] (a record volume of 10,18,000 tons) in 1913-14.

The War of 1914 affected Indian trade in two directions—a great fall in the quantity of imports and a considerable rise in their value, as evidenced by the following statistics[2] :

Quantity and value of Imports of Iron and Steel into India.

	('000 Tons)	Lakhs of Rs.
1913-14	10,18	16,01
1914-15	609	977
1915-16	424	919
1916-17	257	886
1917-18	152	776
1918-19	181	12,45

1. Such a great rise in imports was due to large production of iron and steel accompanied by a large demand with an industrial growth in several countries of the world. *See Growth of Trade and Industry in Modern India* by C. N. Vakil, 1931, pp. 253-54.

2. *Ibid.*

The Impetus of War.—This double phenomena proved a great boon to the home industry which at that time was concentrated in one concern, the Tata Iron & Steel Company, Ltd., opened by the late Sir J. N. Tata[1] at Sakchi in the Sangbhum district in 1907. There was a tremendous demand for steel in the War and that the Tatas made the fullest use of their opportunities can be seen from the following statement showing amounts of pig iron produced, sold as pig and used for conversion into steel by the Company[2].

Statement showing amounts of pig iron produced, sold as pig, and used for conversion into steel by Tata Iron & Steel Co., Ltd.

Period	Pig Iron (in tons)		Finished steel of various descriptions. (in tons.)
	Total	Sold as pig	
July 1912 to June 1913	128,238	106,795	19,130
,, 1913 ,, 1914	155,383	97,698	48,872
,, 1914 ,, 1915	160,587	83,832	66,765
,, 1915 ,, 1916	157-257	60 200	91,000
,, 1916 ,, 1917	147,497	39,541	98,726
,, 1917 ,, 1918	188,253	34,436	113,890
,, 1918 to March 1919	158,395	31,312	101,988
April 1919 ,, 1920	218,845	69,360	122,226
,, 1920 ,, 1921	253,996	93,820	122,356
,, 1921 ,, 1922	270,270	104,042	125,871
,, 1922 ,, 1923	242,083	103,474	116,668

1. The Iron and Steel industry owes the greatest debt of gratitude to late Mr. J. N. Tata. But he had to cope with many handicaps. One of these barriers was what Dr. Dey calls 'the old antiquated and in many ways stupid' mining regulations of the Government of India under which a prospecting license could be issued to an individual but not to companies or associations Again, when an individual had ascertained the commercial possibilities of a mining area Government could come in and sell all the rights by auction. The rules were not calculated to encourage Indian iron and steel industry; they were done away with by Lord Curzon's Government in 1899.

2. *Protection for Indian Steel* by E.H. Solomon, University of Calcutta, 1924, p. 18.

Huge profits were made by the Company during the War, the net (annual average) profit for 1914-1919 being Rs. 79,32,000. The yield on the ordinary shares in 1918 was as much as 20% and on deferred shares 291 per cent[1].

Post-War Slump.—After the War, however, the position was altered. The imports again shot up in quantity to 427,000 tons in 1919-20 and to 712,000 tons (still 70 per cent of the pre-war level, but worth Rs. 31 crores or nearly twice the value of pre-war imports) in 1920-21. Thereafter their total value declined to Rs. 18 crores, although the imports stood at 8,84,000 tons in 1925-26. The fall in prices as well as foreign competition had a great adverse effect on the working of the Tata Company. Their annual net profit fell from Rs. 1,15,31,000 in 1919-20 to Rs. 1,22,000 in 1922-23, while the dividend on both the ordinary and deferred shares disappeared altogether. The Company had no alternative, but to approach Government for protection in 1922, and they based their claim both on the war services they had rendered and the natural advantages they enjoyed in the matter of raw materials, labour supply and ample home market.

Tariff Recommendations.—The matter was fully investigated by the Tariff Board which found, on the one hand, that the industry satisfied all the canons of protection laid down by the Fiscal Commission and, on the other hand, that there was grave danger in withholding assistance.

> "........it is worth while to consider briefly what the consequences would be, if protection were withheld and the manufacture of steel in India were to cease. A large number of workmen would be thrown out of employment and the industrial training they have gained at Jamshedpur would be to a large extent wasted. A very serious blow would also be inflicted on the coal industry owing to the sudden drop in the demand for coal. These, however, are not the most serious results. The development of India's natural resources for steel manufacture would be postponed indefinitely, for we have no hope that, at the present level of prices, fresh capital would be forthcoming or that another firm would enter the business. Finally, and this is the gravest consequence of all, the shock to public confidence in the future of Indian industries would be extreme. It has long been recognised that the progress of industrial development in India will be slow until Indian capital is forthcoming in much more abundant measure than it has been in the past. The complete collapse of the greatest single industrial enterprise in the country would put back the clock for twenty years at least". (*Tariff Board's First Report on the Steel Industry*, para 142).

1. Solomon, *Op. cit.*, p. 19.

Caution and Discrimination.—But caution and discrimination characterised and conditioned the following scheme of protection recommended by the Tariff Board :

	Rs. per Ton.
STEEL :	
Structural shapes, *i. e.* beams, angles, channels etc. ...	30
Ship, tank and bridge plates.	30
Common merchant bars and rods.	40
Heavy and medium rails and fish plates. ...	14
Light rails and fish plates (under 30 lbs.) ...	40
Black sheets.	30
Galvanized sheets, plain or corrugated	45
WROUGHT IRON :	
Angles, channels and tees.	20
Common bars	35

Besides these duties, the grant of bounties on the manufacture of medium and heavy rails and fish plates was also recommended, but taking account of better prices and lesser costs, on a declining scale :

		Rs. per Ton.
1924-25	...	32
1925-26	...	26
1926-27	...	20

The period during which the measure of protection proposed was to remain effective was limited to three years, because of the uncertainty of the course of future prices, and also of the probability of a decided fall in the cost of production.

In the event of the price of imported steel falling so as to make the duties no longer adequate the Board recommended the imposition of supplementary or off-setting duties[1] .

Vigilance of the Legislature.—Insight and vigilance marked the further stages before protection was granted to the Iron and Steel industry. The issue came before the Legislature for decision at a special session in May 1924 when the Steel Industry (Protection) Bill was introduced by Government in the Legislative Assembly to give effect to the proposals of the Tariff Board. The subsequent discussions, both in the Assembly and in the Select Committee, were of great interest, particularly as they revealed a much greater appreciation of the disadvantages attendant on a protective policy

1. *Tariff Board Report,* February 1924, pp. 20-21.

than had been evident so long as India had no choice in the matter. The Assembly generally adhered to the principle of protection and was prepared to grant high protection where, as here, a strong case was made out. But the effect of high protective tariffs on the consumer was stressed by a number of members and the case against the whole principle of protection, the curse of nationalization, and the advisability of confining protection to bounties were all presented. It is significant that, although there was a section which considered that the protection offered was tempered unduly by discrimination, the one amendment of substance made in the Bill as presented was made in the interest of consumers: the Assembly, in spite of Government opposition, deleted the proposal to enhance the duty on certain classes of agricultural implements. The Bill passed into law as Act XIV of 1924: it was to have effect for three years and the last section provided for an inquiry to be made not later than March 1927 into the necessity of continuing protection after that date.

Another Inquiry.—Meanwhile a large decline in the price of imported steel occurred as a result of continued depression in the steel industry in European countries as well as the depression of the Continental Exchanges and the rise in the rupee above 1*s*. 4*d*. level on which the previous proposals had been based. The matter was investigated afresh by the Tariff Board, which on 8th November, 1924 recommended the following enhancement of duty:

	Original duty Rs. per ton.	Proposed duty Rs. per ton.
STEEL :		
Structural shapes	30	65
Ship, tank and bridge plates ...	30	55
Common merchant bars and rods ...	40	75
Heavy and medium rails and fish plates	14	30
Light rails and fish plates (under 30 lbs.)	40	75
Black sheets ...	30	52
Galvanized sheets ...	45	78
WROUGHT IRON :		
Structural sections ...	20	50
Common Bars ...	35	65

Governmental action.—Government accepted the finding of the Board that protection given by the Act had been insufficient and that further protection was necessary, but in view of the fact that the recent

1. *The State and Industry* by A. G. Clow, Calcutta, 1928, pp. 118-119.

duties had brought in more revenue than was anticipated and also in view of the fact that the imposition of further duties would entail a burden on the consumer out of proportion to the benefit derived by the industry, they thought that a bounty of Rs. 20 per ton on 70 per cent. of the total weight of steel ingot production subject to a maximum of Rs. 50 lakhs would meet the needs of the case. The bounty was given from 1st October, 1924 to 30th September, 1925. The proposal of Government to grant bounties was warmly approved by the Indian Tariff Board.

A Third Inquiry.—On the 18th June, 1925, the Board was again directed to consider whether in view of the conditions of the industry and of the probable level of prices of steel articles, the protection already afforded should be supplemented, and, if so, in what form and for what period it should be given. On the 2nd September, 1925 the Board recommended further assistance for the period ending 31st March, 1927 and in the case of the rolled steel industry in the form of a bounty at the rate of Rs. 18 per ton on 70 per cent. of the ingot production subject to a maximum of Rs. 90 lakhs. The recommendation was accepted by Government with this modification that the rate of bounty was reduced to Rs. 12 per ton and the maximum amount of assistance to Rs. 60 lakhs. This was passed by the Indian Legislature on the 15th September, 1925.

Last Tariff Board, 1934.—The last Tariff Board Inquiry into Iron and Steel Industry was conducted in 1933 and in the Report published in 1934, the Board stated that the realisations of the Company fell short of anticipations owing to fall in prices, increased freight charges to more distant markets, failure of anticipated demand from railway and engineering firms, the strike and the lag between realised prices and import prices *plus* duty.

In spite of the great falling off in the demand for steel products the industry made very substantial progress, maintaining its output and greatly reducing its costs of production.

The Board, therefore, recommended a scheme of duties substantially lower than those existing or recommended in 1926 as shown in the following table:

	Duties recommended by the Board in 1926. Rs. per ton.	Existing specific duties Rs. per ton.	Present estimated duties. Rs. per ton.
Rails	13	16¼	Nil
Fishplates	6	7½	Nil
Structurals—			
(1) United Kingdom (tested) ...	19	23¾	Nil
(2) Continental (untested) ...	30	37½	43
Bars—			
(1) United Kingdom (tested) ...	26	32½	10
(2) Continental (untested) ...	37	46¼	39
Plates—			
(1) United Kingdom (tested) ...	20	25	Nil
(2) Continental (untested) ...	36	45	25
Black sheets—			
(1) United Kingdom (tested) ...	35	43¾	11
(2) Continental (untested) ...	59	73¾	32
Galvanized Sheets—			
(1) United Kingdom ...	38	53	10
(2) Continental ...	38	83	40
Sleepers ...	10	12½	Nil

The conclusions of the Board were accepted by Government, but they preferred equalising duties to the removal of the revenue duties on the imports. The Iron and Steel duties Act of 1934 levied an excise duty of Rs. 4 per ton on steel ingots and countervailing duties on imports.

Effects of Protection.—Having briefly analysed the development of protective tariff in its application to the iron and steel industry, the most important question arises as to its effects on the structure of the

industry and the costs of production, on the volume of production and consumption, and on foreign imports.

Structure of the Industry.—Since the first protection of 1924 the industry has greatly expanded in two directions. In the first place, the Tata Iron & Steel Company has so extended its business that today it is the largest industrial unit in India and one of the largest in the East. In 1927-28 the Company's output was 429,000 tons or 30 per cent. of the Indian requirements. In 1932-33 the production was 427,000 tons while the proportion had risen to 72 per cent. which meant that the great fall in demand affected only the imports and not the home manufacture. Since 1932-33 the output has shown continuous, if not rapid, increase and the figures for 1936-37 are given below :

Output		1936-37 Tons
Coke	...	778,000
Pig Iron	...	827,000
Steel Ingots	...	850,000
Saleable Steel	...	667,000

Thus the current actual output of steel of the order of 660,000 tons is clearly in excess of the Tariff Board's estimated average[1] of 555,000 tons for the period 1934-41.

Secondly, helped by protection the Indian Iron & Steel Company, Ltd., which opened in 1918, but began work in 1923, has also made rapid progress and from the second large iron-producing unit it is expected to become within a year a large steel works. The Company amalgamated with the Bengal Iron Company, Ltd., on the 2nd December 1936, and is planning to work in conjunction with the premier Tata Iron & Steel Works. To that extent increased demand will be met by increased supply. Quite obviously it will be to the interests of both companies to see that prices do not fall to uneconomic levels. Thereafter the Indian Steel industry will be concerned with resisting external competition and contraction in consumption.

The Government of Mysore have also installed a steel plant at a cost of Rs. 19,00,000 in connection with the Mysore Iron Works so as to provide an increased outlet for their pig iron. At present a monthly turn over of 1,677 tons is contemplated.

1. *Report of the Tariff Board*, 1934, Vol. I., p. 45. The output of steel in 1937-38 was actually 660,000 tons.

Re-Rolling Mills and other Subsidiary Industries.—Another striking feature of the progress after the passing of the Steel Protection Act of 1934 is the establishment and rise of re-rolling mills. There is considerable scope for such mills to supply the balance of demand for steel products. In 1934 was started the Indian Steel Rolling Mills, Ltd., at Negapatam with a small capital of Rs. 5 lakhs. The present estimated output is 20,000 tons a year, but there is a maximum capacity of 40,000 tons which is roughly the present consumption of the articles produced by the Mill. Other subsidiary industries which have developed include tin-plate, wagon and steel wire.

Thanks to the development outlined above iron and steel now constitutes one of the biggest industries in the country employing 25,000 persons and Rs. 27 crores of capital.

Reduction in Costs.—The progress of the industry, in so far as progress has been achieved, has been accompanied by substantial reductions in costs. The anticipations made by the Tariff Board in this regard in 1926 were in almost every case fully realised by 1934[1], and since then the improvement has been well maintained. For instance, the average price of coal assumed for the period 1926-27 to 1933-34 was Rs. 8 per ton, the actual price paid by the Company was Rs. 5·75 per ton for the six years ending 31st March, 1933. The price in 1938 is Rs. 6·125, but against this slight rise in price there was a marked fall in the consumption of coal per ton of steel. Similarly the price of spelter was assumed at Rs. 555 per ton, but it had fallen to Rs. 235 in 1933. Further, there has been a welcome economy in labour costs mainly due to increase in efficiency as well as economies in other important directions.

The reduction in costs could and should have been still greater, but for the unsympathetic attitude of the Indian Railways in unduly raising the freight rates. According to the estimate of the Tariff Board in 1934, the Tata Company had to incur an additional expenditure of nearly Rs. 40 lakhs owing to higher railway charges of the B. N. and E. I. Railways alone.

Production.—We may now turn to the figures of production in the following table:

1. *Report of the Tariff Board on Steel,* 1934, p. 28.

Iron and Steel Manufactures in India[1].

	1932-33	1933-34	1934-35	1935-36	1936-37*
1. Pig Iron	880,222	1,109,390	1,343,075	1,540,716	1,557,000
2. Iron Castings and manufactures	46,988	67,935	80,841	76,096	99,000
3. Steel Ingots	590,778	720,917	834,030	879,708	861,000
4. Finished Steel	441,594	550,696	627,358	676,691	692,000

As will be seen, there has been an all round increase in the production of iron and steel manufacture and in this regard India now stands only second to United Kingdom in the Empire, but she still lags a long way behind U.S.A. with a production of 10 million tons and France with that of 27 million tons (in 1932).

Consumption.—The sharp advance in the price of steel in 1936 was carried to the autumn of 1937 though Tata's prices had to remain somewhat below world parity on account of the lower purchasing power of the Indian consumer. Demand appears to have been steady from 1934-35 onwards though it has not yet recovered to the high level of about ten years ago when purchases of rails by the Indian Railways and the consumption of galvanized iron sheets were both much higher than in recent years. On a long view, there is no reason to suppose that the consumption of steel will not continue to expand in India, though this expansion cannot be expected to be progressive year by year. According to one estimate, in a short time, consumption might well touch 2,000,000 tons.

Imports.—The increase in home production and consumption has been accompanied by a marked decline in the imports. The following table tells its own tale. While there has been a fall in all the items taken together and most of the items taken separately, the imports of steel bars alone contracted from 151,100 tons in 1926-27 to 27,500 tons in 1936-37 and those of galvanized corrugated sheets from 254,200 tons to 64,600 tons in the same period.

1. *Statistical Abstract for British India from 1926-27 to 1935-36.* pp. 726-27.
**Review of the Trade of India in 1936-37*, p. 49.

Imports of Iron and Steel into India
(In '000 Tons)

	1926-27*	1929-30*	1934-35**	1935-36**	1936-37**
1. Steel angle and tee	46·6	55·6	13·8	19·4	14·9
2. Steel bars (other than caste steel)	151·1	169·3	62·6	54·5	27·5
3. Beams, channels, pillars etc.	71·7	104·9	22·3	28·7	24·9
4. Bolts and Nuts	11·3	12·6	10·2	12·6	9·4
5. Fencing materials	7·1	10·1	7·3	8·8	7·8
6. Hoops and Strips	35·3	39·3	34·5	46·9	41·2
7. Nails, rivets and washers	17·3	16·7	12·2	15·9	12·3
8. Galvanised corrugated sheets	254·2	230·5	58·8	73·2	64·6
9. Galvanised plain sheets	20·6	27·1	13·2	13·8	...
10. Tinned sheets and plates	22·2	31·2	5·6	6·5	1·4
11. Sheets not galvanised or tinned.	61·9	61·8	31·4	37·4	26·5
12. Tubes, pipes and fittings, wrought	29·9	34·1	34·9	62·1	40·4
13. Wire Nails	14·5	12·5	15·7	15·3	8·0

The total imports (table below) were 756,000 tons in 1923-24, 1,197,00 tons in 1927-28 and only 329,000 tons in 1936-37. There was a slight increase to 368,000 tons in 1937-38, but in the annual meeting of the Tata Company's share-holders, the Chairman expressed the hope that with the completion of the new steel mills and reduction in cost, foreign imports should cease altogether.

**Statistical Abstract for British India* from 1926-27 to 1935-36, pp. 846-48.
***Indian Year Book,* 1938-39, p. 795.

Statement showing the Total Imports of different descriptions of iron and steel into British India[1].

(Tons thousand)

Year.		Total Imports.	Year.		Total Imports.
1923-24	...	756	1931-32	...	371
1924-25	...	869	1932-33	...	326
1925-26	...	884	1933-34	...	329
1926-27	...	845	1934-35	...	370
1927-28	...	1,197	1935-36	...	413
1928-29	...	1,170	1936-37	...	329
1929-30	...	973	1937-38	...	368
1930-31	...	614			

In this connection it may be observed that the principal sufferers are the United Kingdom and Germany. The following statement shows the percentage shares of the principal countries in the import of Iron and Steel into British India.

Statement showing the percentage shares of the principal countries in the imports of Iron and Steel into India[2].

(percentage figures)

Year.	U. K.	Germany.	Belgium.	France.	U. S. A.	Other Countries.
1923-24	56·7	8·0	28·7	0·5	2·4	3·7
1924-25	50·5	10·1	31·4	1·0	2·0	4·2
1925-26	55·3	7·8	25·9	5·1	2·6	3·3
1926-27	48·1	9·3	30·4	3·9	3·4	4·9
1927-28	57·2	6·6	26·4	4·0	1·4	4·4
1928-29	55·5	6·0	28·5	4·6	1·5	3·9
1929-30	49·9	6·0	32·1	3·6	1·6	6·8
1930-31	43·8	7·2	33·7	4·7	2·4	8·2
1931-32	44·2	7·0	31·8	4·3	1·4	11·3
1932-33	43·0	6·7	31·9	3·7	0·6	14·1
1933-34	50·5	7·0	21·9	4·0	0·6	16·0
1934-35	49·2	8·0	20·0	3·2	0·8	18·2
1935-36	47·9	15·1	20·0	3·5	1·2	12·3
1936-37	45·5	13·2	23·1	3·6	1·1	13·6

1. *Review of the Trade of India in 1937-38*, p. 224.
2. *Review of the Trade of India, in 1936-37*, p. 53.

The Best Test.—But the best test of the success of protective duties is their entire abolition or at least substantial reduction. It is a matter of genuine gratification that the iron and steel industry has come up to this stringent test. It is significant to note that the last Board recommended the removal of even the revenue duties on rails and tested structurals, or in the alternative, levy of countervailing excise duties. The matter is dealt with in some detail in the Report of 1934 from which, in view of its importance, paragraphs 102-103 are reproduced below:

Comparison of Indian and Continental Steel Production.—"Since the necessity for continuing protection to the Indian steel industry is due to Continental competition, the question may well be asked whether the natural advantages possessed by the steel industry on the Continent are such that the Indian industry may never be able to dispense with protection. We have examined this matter very carefully in the light of the information available to us and we are satisfied that if full economic prices, that is, prices including all necessary commercial charges, were quoted for Continental steel shipped to India, *the Indian industry would need no assistance apart from that afforded by the revenue duty.* The Indian industry possesses the great advantage of a low cost of pig iron due to the high iron content[1] and low cost or the ore and the low cost of coal[2]. Even in the case of districts such as Alsace and Lorraine and Luxemburg where iron ore is obtained cheaply in open workings and is smelted in furnaces located close to the mines the low iron content of the ore renders production more expensive on account of the larger qualities of ore handled and the larger consumption of coke necessary to smelt it. We believe that as regards France, Belgium and Luxemburg which are the Continental countries principally competing with India, the advantage possessed by the Indian steel industry in this respect may be taken at not less than Rs 8 per ton. On the other hand, the employment of the Basic Bessemer process renders the cost of manufacturing steel from pig iron lower on the Continent. By reason of the low phosphorus content of Indian pig iron, the process is inapplicable in India. The principal economy obtained by the Basic Bessemer process on the Continent where high phosphorus iron is available is on account of the credit

1. 55 to 70 per cent. in India, as compared with 30 to 35 per cent. in United Kingdom and 50 to 60 per cent. in United States of America.

2. Owing to the close proximity of coal and iron deposits.

realised by the sale of "basic slag" with a high phosphorus content for agricultural purposes. This, however, according to our information does not in many cases exceed Rs. 5 per ton. The advantage possessed by the Indian industry in the low cost of its pig iron is, therefore, in our opinion sufficient to offset the economy obtained on the Continent by the use of the Basic Bessemer process."

Possibility of dispensing with Protection against Continent.— "From the point of view of natural advantages, we see no reason to assume that India is under any handicap as compared with Continental countries in the manufacture of steel. With the reductions in works costs which we have estimated, we believe that by the end of the next period of protection, Indian works costs will be no higher than on the Continent. Whether protection against Continental steel will then be required will, therefore, depend on how far overhead charges and profits calculated on a commercial basis are included in the selling prices on which our proposals are based, it will be noticed that in the case of imports from the Continent, the duties estimated are required to meet the amounts of overhead charges and profit."

Could there be a better testimony than this to the success of protection given to the iron and steel industry in India ?

LECTURE IV

PROTECTION AND LARGE INDUSTRIES

COTTON

Cotton is the oldest industry[1] of India enjoying the advantages of abundant raw cotton, plenty of labour supply trained through ages and a vast home market[2].

History.—Of all the stories of the development of Indian industries the story of Cotton industry in India is perhaps the most romantic. In the past in the 16th and 17th centuries, India produced the finest cotton cloth made anywhere in the world. According to Sulaiman, the Arab traveller, as early as in the 9th century, who visited the manufacture of cotton fabrics made in East Bengal, "they were so fine and delicate that they could pass through a signet ring". In the 16th century we have the authority of Abul Fazal to say that the Dacca muslins were the best throughout the world. Some of them were called *ab-i-rawan,* meaning running water, because if placed in stream they could hardly be seen; some were called *baft-hawa* or woven air, because if thrown in air they would float like a cloud; and some again were called *shabnam* or evening dew, because if spread on the grass, they would be taken as evening dew. Cotton industry was indeed the king—or shall I better say the queen[3]—of all industries as it was the favourite of the kings and queens.

According to one authority (Milburn) in 1814 India imported 818,208 yards of cotton goods from Britain, and Britain imported 1,266,608 yards from India. After that year, however, the Indian Cotton Industry suffered gradual and continuous depression. The causes make a very sad reading and constitute a most unfavourable commentary on Britain's relations with this country. The first cotton

1. No wonder, Mahatma Gandhi lays so much store by the Khadi movement, as it is the one industry native to the soil of the country through which millions of people have earned their living. See *India's Oldest Organized Industry—Our Cotton Mills: A National Asset*—Article by Sir H. P. Mody, in *Capital* Jubilee Number, 3rd November, 1938, pp. 99 *et seq.*

2. India has a population of 400 millions (latest estimate) and cotton is the most suitable wearing material for Indian climate.

3. This lecture was attended among others by Mrs. Sarojini Naidu.

mill in India was established in 1818, but the real development began with the establishment of the Bombay Spinning & Weaving Mill in 1851.

Years of Trial and Travail.—At the end of 1900 there were 156 mills (with a nominal capital of Rs. 14,19,50,000) and comprising 36,600 looms and 40,46,100 spindles. The Swadeshi movement of 1906-10 gave a great fillip to the progress of the cotton as to that of iron and steel industry and to cotton even more than to iron and steel. This coupled with the War of 1914 led the cotton industry to a boom in 1917, but the rupee exchange crisis of 1920 and the intense Japanese competition resulted in a slump in 1921.

For long and for vain did the industry plead for State assistance. It was not until 1st October, 1925 that for the first time the much condemned cotton excise duty was abolished, as a temporary measure. The abolition was, however, made permanent in 1926, but not without enormous agitation throughout the country. The following words of the Fiscal Commission may be recalled in this connection:

"But we shall have written this Chapter in vain if we have not made it clear that the Indian cotton excise duty cannot be dealt with purely on economic grounds. The whole question is permeated with suspicion and resentment and these feelings have been kept alive by the action taken by the representatives of the Lancashire cotton industry in 1917, in 1921 and again within the last few months to try to secure through the Secretary of State a reversion to the system which their influence had for so many years imposed upon India." (*Fiscal Commission Report*, para 168).

Demand for Protection.—Since no action had been taken on this recommendation of the Fiscal Commission the following resolution was passed by the Indian Legislative Assembly in 1924:

"That this Assembly recommends to the Governor-General in Council to take early steps to abolish the cotton excise duty as recommended by a majority of the Indian members on the Indian Fiscal Commission and to be pleased to direct the Tariff Board to further examine the question of protection to the Indian cotton mill industry at an early date[1]."

1. *Imperial Legislative Assembly Debates, (Official Report)*, 20th March, 1924, p. 2020. Resolution moved by Mr. Kasturbhai Lalbhai.

Tariff Changes.—There have been three Tariff Board inquiries into the working of the Cotton Textile Industry in India, the first in 1926-27, the second in 1932 and the third in 1935.

According to the first Tariff Board, the most striking feature in the history of the Cotton textile industry in India from 1899 to 1922 was the expansion in every direction especially in weaving, the other important features being the loss of export trade in yarn, the gradual decreasing dominance of Bombay and the increasing share of Japan in the import trade[1].

During the decade before the war, the balance of advantage in international trade had moved in favour of agricultural countries[2], the agrarian prices being relatively higher than the general prices. Since 1921 however, the position was reversed the general prices being higher than the prices of agricultural products. This was largely responsible for the depression in the cotton industry which was worsened by the course of American prices and the cyclical character of trade throughout the world[3]. The price of Indian yarn was depressed owing to the competition of Japanese yarn, Japanese yarn of 32 counts being sold at a price which was practically equal to the cost of manufacture alone of yarn of the same count in India, without any allowance for profit or depreciation. In cloth of lower counts (*i. e.* in drills and shirtings), however, Indian mills were able to hold their own[4].

According to the Tariff Board the depreciation of the Japanese exchange, so long as it lasted, the double shift working and the inferior conditions of labour in Japan constituted an unfair competition between Japan and India and an important factor in the existing depression of the cotton industry[5].

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1. *Report*, 1927, para 7.
2. See Mr. Keynes' views in *Economic Journal*, Vol XXII (1912) pp. 630 *et seq.*, Vol. XXXIII (1928), pp. 476 *et seq.* and in his *Economic Consequences of the Peace*, p. 8, and Prof. Taussig's paper on "Great Britain's Foreign Trade Terms after 1900" in *Economic Journal*, Vol. XXXIV (1925). Sir William Beveridge's dissent from Keynes' views is given in *Economic Journal*, Vol. XXXIII, 447 *et seq.* amd *Economica*, February, 1924.
3. *Tariff Board Report*, 1927, (pras 14-16). The outstanding cause of the depression in the cotton textile industry in India was held by the Bombay Mill Owners' Association to be unfair competition from foreign competitors. (*Ibid*, para 18).
4. *Ibid.*, paras 20 and 26.
5. *Ibid*, paras 30, 32 and 35. The depreciation of the Japanese exchange did stimulate Japanese exports to India, while the double shift working was estimated to give the Japanese industry an advantage of 4 per cent. on the actual cost of manufacture both of yarn and cloth.

The conclusion of the Board as regards the stabilisation of the rupee at 1s. 6*d*. was that coming as it had done at a time of falling prices, it had 'rendered the problem presented by the disparity between prices and wages in the industry somewhat more pronounced', while according to one member of the Board (Raja Hari Kishan Kaul) it had had "both a direct effect on the condition of the industry and its ability to compete in foreign markets and an indirect effect by reducing to some extent, the purchasing power of the agriculturists[1]".

The Board made a number of recommendations of which the most important were:

1. Establishment of a combined bleaching, dyeing and printing works in Bombay (para 82).

2. Additional duty of 4 per cent. on all cotton manufactures (para 92).

3. Stimulus to the production of goods of higher quality by means of a bounty of one anna per pound on yarn of 32 *s*. and higher counts, limited to the production of an average of 15 per cent. of spindleage in a mill in British India unless the total spindleage employed on higher counts exceeded 7½ per cent. and the average count spun was not below 34 *s*. (para 97).

4. Remission of import duty on cotton textile machinery and mill stores (para 94).

5. Appointment of Trade Commissioners in Basra and Mombasa. (para 102).

The President of the Board Mr. (later Sir Frank) Noyce differed from his colleagues and held that there should be no bounty on the spinning of higher counts and that the additional duty of 4 per cent. should be imposed on cotton piece goods coming from Japan alone.

The decision of the Government published on the 7th June, 1927 caused general resentment, as the above recommendations were rejected with the exception of the fourth. Public agitation, however, led to the passing of the Indian Tariff (Cotton Yarn Amendment) Act, 1927 by which the duty on imported cotton yarn was changed from a duty of 5 per cent. *ad valorem* to one of 5 per cent. *ad valorem* or 1½ annas a pound whichever was higher. The duty on artificial silk yarn was

1. *Tariff Board Report*, 1927. p. 76.

reduced from 15 to 7½ per cent., but no change was made in the duties on piece-goods which remained at 11 per cent. on cotton cloth and 15 per cent. on artificial silk and on artificial silk and cotton mixtures until 1930[1].

Official Inquiry, 1929.—In 1929 an official inquiry was conducted by Mr. G. S. Hardy to examine the possibility of substituting a system of specific duties for the system of *ad valorem* assessment of cotton piece goods and to ascertain the changes in the volume and character of imports and the extent of foreign competition. Mr. Hardy found that the change from the existing *ad valorem* duty was not feasible on administrative grounds and that Japan had gained rapid and continuous entry into the Indian market at the expense of the United Kingdom[2].

After considering the report Government raised in 1930 the revenue duty on all cotton piece goods from 11 to 15 per cent. and by the Cotton Textile Industry Protection Act of that year an additional protective duty of 5 per cent. was imposed for three years on all goods of non-British manufacture and a minimum specific duty of 3½ annas per pound on plain grey goods irrespective of origin. This did not, however, satisfy the industrial interests and a tariff inquiry was promised in 1932.

Revocation of Fiscal Autonomy.—The Cotton Textile Industry Bill in 1930 led to a number of amendments which were moved by non-official members and were opposed on behalf of the Government by the Hon'ble Sir Charles Rainy who made it clear that if amendments were pursued in opposition to the definite wishes of Government, he would be compelled to give up the whole protective measure. On this the President of the Assembly made the following significant observation :

> "I am afraid that position is entirely inconsistent with the statement made by the Finance Minister, that Fiscal Autonomy is a reality and that it is an integral part of the constitution and also the statement by the Secretary of State for India, made in the House of Commons in the recent debates that India enjoyed the same liberty in the matter of tariffs as Great Britain enjoys."

The reply of the Hon'ble Commerce Member amounted to a clear revocation of the Fiscal Autonomy Convention. He said :

> "I think Sir, it has been clear all along that what the Fiscal Autonomy means is that when the Government of India and the

1. *Report of the Special Tariff Board*, 1936, para 6.
2. *Ibid.*, para 7.

Legislature are in agreement, the Secretary of State will not exercise his power of superintendence, direction and control. In any Dominion, it would be necessary that the Government of the Dominion and its Legislature should be in agreement before a decision on such matters is arrived at. The difference, of course, is that in a Dominion, automatic means are provided by which, when there are differences between the Legislature and the Government they are at once adjusted, whereas under the existing constitution in India no such automatic means of adjustment are provided."

Additional Protection in 1931.—The years 1930 and 1931 were years of depression, but the industry benefitted from two events, first the *Swadeshi* movement and secondly the budget of 1931 by which duty on the cotton goods of U. K. was raised to 20 per cent. and on goods of other places to 25 per cent. and the emergency budget of 1931 by which a surcharge of 25 per cent. was imposed from 30th September, thus raising the duty on goods manufactured in the United Kingdom to 25 per cent. *ad valorem* at which it continued till the last tariff inquiry in 1935. At the same time the duty on artificial silk yarn was raised to 18¾ per cent., while the duties on artificial silk piece goods and artificial silk manufactures were raised to 50 per cent. and 34⅜ per cent. respectively in September, 1931.

Tariff Inquiry 1932.—The second Tariff Board on Cotton was appointed in 1932, but in the course of the inquiry the existing protection was rendered entirely ineffective by the severe depreciation of the Japanese currency. This question was specially referred to the same board and in August, 1932 the import duty on cotton piece goods not manufactured in the United Kingdom was raised from 31¼ to 50 per cent. *ad valorem* and the minimum specific duty on plain grey goods not of British manufacture from 4⅜ to 5¼ annas per pound (until 31st March, 1933).

In its main report, submitted on 10th November, 1932, the Board acknowledged that the Indian Cotton textile industry had established a claim to substantive protection and recommended certain rates of duties to this effect. The Government accepted this view, but the rates had to be revised in 1933 owing to a further decline in the value of yen that followed closely the submission of the report of 1932. The duties on artificial silks were altered to 50 per cent. *ad valorem* or 4 annas per square yard whichever was higher. On artificial silk mixtures the duties were changed to a minimum of 2¼ annas per square yard or 35 per cent., the *ad valorem* rate being increased to 50 per cent. at the

end of the year. The duty on cotton piece goods not of British manufacture was raised to 75 per cent. *ad valorem* with a minimum specific duty on plain grey goods of $6\frac{1}{2}$ annas per pound. The conclusion of Indo-Japanese Trade Agreement necessitated on 8th January, 1934, the reduction of duties on cotton piece goods of non-British origin to 50 per cent. *ad valorem* with a minimum specific duty on plain grey goods of $5\frac{1}{4}$ annas per pound.

Subject to one slight modification in respect of cotton yarn of counts over 50 *s.*, the Indian Tariff (Textile Protection) Amendment Act which came into force on 1st May, 1934, gave statutory effect to the Indo-Japanese Agreement and the Mody Lees Pact. Among other changes made, a new definition of grey piece-goods was introduced and provision was made for a new class of piece-goods under the head of cotton sateens.

Tariff Inquiry, 1935.—In response to the request of Lancashire suggesting that import duties should be adjusted in relation to fair selling prices in India, a special Tariff Board was appointed in 1935 to review and recommend the level of the duties necessary to afford adequate protection to the Indian cotton textile industry against imports from the United Kingdom. In the cold weather of 1935 the Tariff Board conducted its work and Lancashire sent a delegation to tender evidence on its behalf in accordance with a provision embodied in the Ottawa Pact giving the United Kingdom or Dominion interest a right of audience. The Board finished its work before February, but the report was published towards the end of June 1936, when the tariff changes recommended were immediately given effect to by a notification under Section 4 of the Indian Tariff Act. The duty on plain grey goods was reduced from 25 per cent. *ad valorem* or annas $4\frac{3}{8}$ per lb. whichever was higher to 20 per cent. *ad valorem* or annas $3\frac{1}{2}$ per lb. whichever was higher. In the case of bordered greys, bleached goods and coloured goods the duty was reduced from 25 to 20 per cent. *ad valorem.* The duty on yarn of counts above 50 *s.* was fixed at 5 per cent. *ad valorem* and on yarns below 50 *s.* was to be 5 per cent *ad valorem* or annas $1\frac{1}{4}$ per lb. whichever was higher. The Board considered that the existing tariffs conferred adequate protection to the Indian mill industry which had led evidence for an increase in the duties.

The immediate acceptance of these recommendations without the sanction of the legislature caused a good deal of adverse comment

without any effect. But this criticism was not lost sight of in the negotiations for a new trade treaty with Britain, and one of the consequences of the criticism was the appointment of a panel of non-official advisers to assist the Commerce Member. On 19th October, 1936, Government issued a press communique pointing out that since negotiations were in progress between the two Government "the 1932 agreement shall continue in force subject to termination at three months' notice by either side unless it is replaced by a new agreement". These negotiations are still continuing and their protracted nature has also given rise to some adverse comment. The public opinion in the country is expressed in the following resolution moved by Mr. K. Santanam and adopted by the Assembly on 1st April, 1938. "That this Assembly recommends to the Governor-General in Council that no steps should be taken to conclude a fresh Indo-British Trade Agreement or any trade agreement of a similar nature without first consulting the Assembly."

The Indo-British Agreement is still in the air. The press reports show that an agreement to the advantage of both the countries will be shortly concluded.

Production of Twist and Yarn.—The following tables show the production of yarn in British India and Indian States and classified according to counts. From the pre-war figure of 682,770,000 lbs. the quantity has gone up to 1,159,513,000 lbs. or an increase of 70 per cent. It is interesting to observe that while the progress is all round, it is more marked in Indian States than in British India and more in higher counts than in the lower. The increase in the production of higher counts is largely accounted for by the steady importations of Egyptian, African and American cotton which has been a regular feature in recent years. Indeed the quantity of yarns of counts above 40 has increased more than five-fold from 15 million pounds in 1929-30 to 85 million pounds in 1937-38, but its ratio to the total quantity of all kinds of yarns has improved from 1·8 to 7·3 per cent. only.

Statement showing the production of Twist and Yarn in Indian Mills classified according to counts for the years stated[1].

	1913-14 (pre-war year)	1929-30	1934-35.	1935-36	1936-37	1937-38	Percentage of total in 1937-38
Cotton Twist and Yarn	lbs. [000]	lbs. [000]	lbs. [000]	lbs. [000]	lbs. [000]	lbs. [000]	
No. 1-20 ...	492,693	493,382	573,170	594,552	592,692	607,945	52·4
No. 21-25 ...	123,995	181,245	151,650	164,705	148,005 }	302,813	26·1
No. 26-30 ...	42,999	90,579	130,763	126,079	120,757 }		
No. 31-40 ...	19,712	46,365	96,044	112,339	123,008	152,455	13·2
Above 40 ...	2,699	15,279	43,877	58,528	61,852	85,113	7·3
Two-folds (doubles)	...	...	...	...	...	...	...
Unspecified descriptions and waste	679	6,710	5,916	6,084	8,403	11,187	1·0
Total ...	682,777	833,560	1,001,420	1,059,287	1,054,117	1,159,513	100

Production of Yarn in British India for the years stated[2].

British India.

	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Yarn	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.
Counts 1-20	468,619	437,317	322,731	425,346	436,624	480,788	508,992	464,247	473,718	491,736
.. 21-30	224,897	238,556	184,724	240,540	227,896	262,527	264,645	223,981	246,225	249,535
.. 31-40	25,738	31,980	34,960	43,674	57,421	66,979	72,173	68,310	87,439	103,837
.. above 40	11,336	10,960	9,771	14,816	26,215	32,877	34,574	34,832	40,250	53,320
Wastes etc.	3,634	5,775	5,489	6,443	5,509	4,955	5,388	5,341	5,609	5,811
Total	734,224	724,588	557,675	730,819	753,665	848,126	885,772	796,711	853,241	904,239

Production of Yarn in Indian States and Foreign Territory for the year stated[3].

	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Yarn.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.
Counts 1-20	47,062	57,483	59,292	68,036	77,115	81,269	90,462	83,183	99,452	102,816
.. 21-30	23,413	24,515	28,289	31,285	31,793	31,478	32,868	30,846	36,188	38,249
.. 31-40	1,919	1,778	2,529	2,691	3,326	4,094	5,013	7,501	8,605	8,502
.. above 40	196	181	258	462	1,096	1,125	2,020	2,526	3,627	5,209
Wastes etc.	302	395	253	267	283	281	287	293	307	272
Total	72,892	84,352	90,621	102,741	113,613	118,247	130,650	124,349	148,179	155,048

1. *Review of the Trade of India* in 1936-37, p. 36, and in 1937-38, p. 247.
2. *Statistical Abstract for British India*, 1938, p. 720-21.
3. *Ibid.*

Production of counts above No. 40 in India[1].

Years.	Quantity of yarns of Counts above 40 produced.	Total quantity of all descriptions produced.	Ratio of the quantity of yarn above 40 s. to the total quantity.
	(Million lbs.)	(Million lbs.)	(Million lbs.)
1929-30	15	834	1·80
1930-31	27	867	3·11
1931-32	34	966	3·52
1932-33	37	1,016	3·64
1933-34	37	921	4·02
1934-35	44	1,001	4·40
1935-36	58	1,059	5·48
1936-37	62	1,054	5·88
1937-38	85	1,160	7·3

Imports of Twist and Yarn.—While the production of yarn has increased the imports have declined. The total imports which were 44,171,000 lbs. in 1913-14 and 43,882,000 lbs. in 1929-30 were reduced to 21,998,000 lbs. in 1937-38. Thus continued, if not rapid, progress is revealed by the following statistics :

Imports of Twist and Yarn into British India for the years stated[2].
(Figures in thousand lbs.)

	1913-14 (pre-war year)	1929-30	1934-35	1935-36	1936-37	1937-38
Cotton Twist and yarn						
No. 1–20 ...	1,254	1,047	410	182	253	268
21–25 ...	896	290	281	174	169	466
26–30 ...	3,686	395	956	1,216	819	
31–40 ...	23,657	20,050	7,980	13,535	4,431	2,582
Above 40 ...	7,859	9,013	8,402	8,710	8,484	4,327
Two-folds (doubles) ...	...	13,053	15,950	20,731	14,341	14,337
Unspecified descriptions and waste ...	6,819*	34	43	22	23	18
Total ...	44,171	43,882	34,022	44,570	28,520	21,998

1. *Review of the Trade of India* in 1936-37, p. 36, and in 1937-38, p. 247.

2 *Review of the Trade of India* in 1936-37, p. 36, and in 1937-38, p. 220.

*includes white twist and yarn which commenced to be shown separately by counts from April, 1927.

It is interesting to note that though the total imports of twist and yarn have declined in recent years, this decline until last year took place more in the case of yarn of lower counts than higher. This tendency showed very clearly that India was still dependent upon foreign countries for the importation of twist and yarn of higher counts. This has, however, changed in 1937-38.

Production of Piece-goods.—Turning to the production of piece-goods in Indian mills the following table records an improvement from 1,577·2 million yards in 1926-27 to 3190·6 million yards grey and bleached goods in 1937-38, from 681·5 million yards to 893·6 million yards of coloured piece-goods and from 2,258·7 million yards to 4084·2 million yards of total piece-goods or 90 per cent. increase in a period of twelve years. In other words, the total production in 1937-38 has risen to more than double the quantity produced (1,954 million yards) in 1925-26 on the eve of the first Tariff Board inquiry.

Statement showing the production of piece-goods in Indian Mills classified under the two main heads for the years stated[1].

(Million Yards)

Year	Grey and Bleached	Coloured piece-goods	Total piece-goods
1926-27	1,577·2	681·5	2,258·7
1927-28	1,675·0	681·6	2,356·6
1928-29	1,409·6	483·7	1,893·3
1929-30	1,814·9	604·1	2,419·0
1930-31	2,003·5	557·6	2,561·1
1931-32	2,311·1	678·8	2,989·9
1932-33	2,423·3	746·9	3,170·2
1933-34	2,265·1	680·1	2,945·2
1934-35	2,641·5	755·8	3,397·3
1935-36	2,772·8	797·9	3,570·7
1936-37	2,761·7	810·2	3,371·9
1937-38	3,190·6	893·6	4,084·2

1. *The Indian Cotton Textile Industry* by M. P. Gandhi, 1938, p. 14.

Imports of Piece-goods.—An in the case of twist and yarn, the imports of piece-goods have also declined and the decline has been comparatively more rapid from 1,193 million yards in 1932-33 to 594 million yards (266 from United Kingdom) in 1937-38.

Statement showing the Imports of Piece-goods in India[1].
(In millions of yards)

	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38
Grey (unbleached)	217	140	178	212	261	133
Bordered Grey	138	90	119	120		
White (bleached)	413	262	285	263	219	202
Printed Goods	237	140	200	218		
Dyed Goods	148	102	127	103	282	255
Coloured woven goods	40	26	34	30		
Total piece-goods	1,193	760	943	946	762	590

Statement showing the imports of cotton manufactures in India for the years stated[2].
Rs. (Lakhs)

	1913-14 (pre-war years) Rs. (Lakhs)	1929-30 Rs. (Lakhs)	1933-34 Rs. (Lakhs)	1934-35 Rs. (Lakhs)	1935-36 Rs. (Lakhs)	1936-37 Rs. (Lakhs)	1937-38 Rs. (Lakhs)
Twist and Yarn	4,16	6,00	2,58	3,10	3,71	2,55	
Piece-Goods :							
Grey (unbleached) ...	25,45	20,93	3,06	4,03	4,34	3,38	
White (bleached) ...	14,29	13,27	4,73	5,47	4,98	4,49	
Coloured, printed of dyed. ...	17,86	15,15	5,25	7,43	6,46	5,50	
Total piece-goods ...	57,60	49,35	13,04	16,93	15,78	13,37	
Hosiery : ...	1,20	1,44	77	58	50	33	
Handkerchiefs and shawls ...	89	17	4	4	5	9	
Thread ...	39	81	51	71	65	70	
Other sorts ...	1,52	82	35	40	46	44	
Grand total (excluding fents) ...	65,76	58,59	17,29	21,76	21,15	17,48	

1. *Indian Cotton Textile Industry* by M. P. Gandhi, 1938.
2. *Review of the Trade of India* in 1937-38.

Exports of Piece-goods and yarn.—At the same time, there has been a steady improvement since 1933-34 in the exports of piece-goods, as revealed from the statistics below, to Iraq, Strait Settlements, Bahrein Islands, Aden, Egypt, East Africa, Burma etc.

Exports of piece-goods in millions of yards.

1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38
156	133	98	66	56	58	71	102	241

The following are the figures of export of twist and yarn during the last three years.

1935-36	1936-37	1937-38
lbs.	lbs.	lbs.
9,668,170	12,137,095	40,124,355

Past Review and Recent Tendencies.—It is already seen that the Indian textile mills are steadily increasing their production both of yarn and piece-goods and there is a tendency for spinning mills to resort to weaving of cloth also, except in Madras Presidency where more spinning mills have been started. Indian mills have increased their production of woven goods by over 25 per cent. since 1931 and of yarn by 15 per cent.

Statement showing the progress of the Cotton Industry during the year stated[1].

Year.	No. of Mills.	No. of Spindles. '000	No. of Looms. '000	Average No. of hands employed daily. '000	Cotton consumed in 000s of bales of 392 lbs. each.
1926	334	87,14	1,59	3,73	21,13
1927	336	87,02	1,61	3,83	24,17
1928	335	87,04	1,66	3,60	20,09
1929	344	89,09	1,74	3,46	21,61
1930	348	91,24	1,79	3,84	25,73
1931	339	93,11	1,82	3,95	26,33
1932	339	95,06	1,86	4,03	29,11
1933	344	95,81	1,89	4,00	28,37
1934	352	96,13	1,94	3,85	27,04
1935	365	96,85	1,99	4,15	31,23
1936	379	98,57	2,00	4,18	31,10
1937	370	97,31	1,97	4,17	31,47
1938	380	1,00,20	2,00	4,38	36,63

1. *The Indian Cotton Textile Industry* by M. P. Gandhi, 1938.
The figures of 1938 exclude Burma.

The preceding review shows that the cotton textile industry is registering an all round progress which has been specially accelerated during the last two or three years. In 1937-38 India's production of cotton piece-goods aggragated 4084·2 million yards against 2,419·1 million yards in 1929-30. Correspondingly the total imports of piece-goods have fallen to 594 million yards. At this rate the time is not far when India should not only be supplying all her present requirements of 6,000 million yards, but also her future needs which must naturally grow with the income of her people, and the increase in population.

Tendency to Self-Sufficiency.—Like all cotton consuming countries India is trying to be self-sufficient The protectionist policy of the Gevernment in this country has helped the growth and development of this industry, which has led to a fall in the import of cotton manufactures from the United Kingdom. On the other hand, India is now importing increasing quantities of textile machinery. The British exports of textile machinery, in the first quarter of 1938 totalled 870,000 tons valued at £2,253,000 as against 583,000 tons valued at £1,640,000 in 1937. That India was the principal buyer is shown by the following statistics:

The shipments to India in 1938 were valued at
£ 921,000 against £ 450,000 in 1937.

The shipments to Germany in 1938 were valued at
£ 203,000 as against £ 65,000 in 1937.

The shipments to Brazil in 1938 were valued at
£ 157,000 as against £ 63,000 in 1937.

Thus it will be seen that the textile machinery is taking the place of cotton goods in the Indo-British trade.

Trade Agreement with Japan.—Another point of interest in connection with the recent happenings in the cotton industry is the conclusion of a new trade treaty with Japan. The present treaty which came into force just when the old pact of 1934 expired was signed a little later, on April 13, 1934. It was based on the same old quota system with revised limits necessitated by the separation of Burma from India. At present in any cotton piece-goods year (beginning on April 1) Japan has to import one million cotton bales, if she desires to export 283 million yards of cloth to India. This is the basic quota. The largest quantity of cotton piece-goods that Japan can send to India is fixed at 358 million yards a year. For this purpose the basic allotment

of 283 million yards could be increased on an agreed scale for every 10,000 bales of the excess over one million bales taken in any cotton year. The importation of fents has been since 1937 limited to 8·95 million yards. The rates of duties imposed on plain greys of non-British origin stand at the former level of 50 per cent. *ad valorem* or 5¼ annas per lb. whichever is higher, and on others 50 per cent. *ad valorem*. Howsoever much the present treaty may fall short of the demands of the Indian trading community, it is an improvement upon the one it has replaced.

It was shortly after the conclusion of this treaty that Japan found herself involved in the Sino- Japanese conflict which has resulted in a considerable decline in her exports. In April 1938 Japan's exports totalled Y 232,621,000 a fall of Y 45,205,000 or a little over 16% compared with April 1937.

For the first four months of 1938 Japan's exports were Y 837, 843,000 against Y 1,011,467,000 for the corresponding period of 1937—a fall of Y 173,624,000 or a little over 17 per cent.

Production of Superior Cloth.—Another very healthy feature of the industry is the production of better and superior cloth. There is a marked improvement in the designs and styles and India is now also producing goods of higher counts which at one time were the monopoly of Lancashire. Thus our mills are now producing dyed and printed voiles, poplins, tussores, coloured Italian cloths and *poongees* and white mulls which were before mainly imported. Similarly India is now competing in grey shirtings which were formerly the speciality of Japan[1].

Manufacturing Efficiency and Rationalisation.—In the matter of manufacturing efficiency there can be no greater tribute than the one paid by the Delegation of Experts who visited India under the leadership of the Rt. Hon'ble Tom Shaw.

"Taking the factories from the point of view of height of the rooms, space and ventilation, they are at least equal to the factories of Europe. The machinery is, with very few exceptions of the latest and the most up-to-date type, and, whilst there was abundant evidence that taking generally European conditions were not being reached, we saw many concerns where in every respect the conditions were fully equal to the best European Mills. The classes of goods made, too, were a

1. *Capital Industries Supplement*, 1937, p 48.

revelation. I venture to say that none of the delegates thought that technical development had gone so far as it has done in India. Many of the manufacturing processes were fully equal to European standards, and in some cases the variety of yarns spun and cloths woven, dyed and finished showed a range and variety which is probably not equalled by any individual European concern[1] ".

Thus we find that the Indian manufacturers have not lagged behind in the race of rationalization which so greatly increases the efficiency and reduces costs in any industry.

The Crucial Test.—The truest test of the success of protective tariff, however, is how soon and how much an industry can dispense with the protection. The existing protective duties on cotton piece-goods of British manufacture are 20 per cent. *ad valorem*, and on cotton piece-goods of non-British manufacture, 50 per cent. *ad valorem*. In regard to competition with Britain, it must be remembered that the Indian Cotton manufacturer has to bear extra expenses in erecting and running cotton machinery which has to be imported from abroad, and on which a 10 per cent. duty has to be paid. If a cotton machine costs Rs. 100 in London, freight and insurance and other charges have to be added on to it. When it arrives at the port, it mounts upto Rs. 125 on which a duty of 10 per cent. is levied. That works out to nearly Rs. 140, and by the time it reaches an inland centre like Delhi it may be Rs. 160 or more as compared with Rs. 100 in England. The depreciation and interest charges have also to be considered on the enhanced price of the machinery.

Thus the expenses of cotton manufacture in India are higher by at least 7 per cent. on account of this item of extra cost of machinery alone, and this should be deducted from the 20% duty on British goods in order to arrive at the effective protection which is at present enjoyed by the Indian Cotton industry. According to those in close touch with the working of the cotton mills, it appears that if the duty on British goods is reduced by another 5 per cent., it would not seriously affect the industry. Thus it would appear that as a result of protection to cotton, the industry has now reached the stage where it has shown its capacity to satisfy to a large extent even the third condition of the Fiscal Commission, namely, that it may be able to

1. Quoted (from the Report of the Delegation of Experts which came out to India a few years ago under the leadership of the Rt. Hon'ble Tom Shaw) by Sir H. P. Mody in his article "India's Oldest Organised Industry" published in the *Jubilee Number* of the *Capital*, 1938.

dispense with protection altogether. Although the Indian cotton industry cannot dispense with protection in its entirety immediately, the protection has come down to a narrow margin of about 8 per cent.

As for competition with countries other than the United Kingdom, it means mostly Japan. In the case of Japan, even the United Kingdom and other countries find it difficult to compete because of the peculiar conditions of protection prevailing in that country. Against Japan, therefore, a high degree of protection is essential under unusual circumstances, but it is more in the nature of an anti-dumping duty.

The Future of the Industry.—In the end a word may be permitted for the future. The cotton industry is the biggest national industry in India which has a capital investment of over Rs. 100 crores, which gives employment to no less than 5 lakhs of workers including about two lakhs of women, and consumes an increasingly large part of Indian cotton out of a total production of about 57 lakhs bales. Its safety and progress must, therefore, receive the careful attention of her capitalists, labour leaders, politicians and economists. It is the duty of the Government of India to help the industry adequately. It may be advisable for the Government to raise the duties in cases of higher counts of yarn and finer classes of piece-goods which are coming into competition with Indian mill products. Indeed, as observed by Mr. V. N. Chandravarkar at the annual meeting of the Bombay Millowners' Association in March 1937 : "a grave danger to the better class lines of cotton goods lies in the competition which has to be met from cheap Japanese artificial silk piece-goods which, even with a fairly heavy import duty, are entering this country in rapidly increasing quantities." It is necessary that the import duties should be sufficiently high on all classes of goods in order to establish a fair competitive position. Of the total consumption of cloth in India at present, the Indian mills contribute 61 per cent., the Indian handlooms contribute 26 per cent. and the imports the remaining 13 per cent. If the industry is to achieve the goal, *viz.*, entire replacement of foreign cloth by internal production, the industry should be assured of adequate protection for some years, Ultimately it will be possible for India to produce all the cloth required for her consumption. In this connection, it must not be forgotten that the handloom production has also been making headway during all these years, and it is being patronized by the people in recognition of its lasting qualities and out of the feeling that the money spent on handwoven cloth is

retained in the country. The Ahmedabad Millowners' Association pointed out before the Special Tariff Board in 1935 *viz.*, that the period of protection hitherto accorded to the industry has "hindered the growth of a general confidence in the future of the industry—a feeling absolutely essential if the industry as a whole is to commit itself to a programme of greater diversification of quality, texture and finish. It is our considered opinion that if this feeling of suspense were once removed, there is no class of goods which Indian manufactures cannot produce".

The former goal of catering for the Indian market, if necessary, by importing long staple cotton for manufacturing finer quality of piece-goods till such time as suitable quality in sufficient quantity of long staple cotton becomes available in India, appears to be better for the near future. By accepting the goal of supplying all grades of our demands in the Indian market, we can avoid the necessity of competing in foreign countries, which we may not be able to stand due, *inter alia*, to high tariffs against us, and we can also do without taking the undesirable steps of imposing any export duty on our raw cotton in order to earmark the supply of cotton for us. Also the possibilities of expansion of Indian goods in the home market are far greater than in the foreign market.

LECTURE V

PROTECTION AND LARGE INDUSTRIES

(*Sugar, Paper and Others*)

(i) SUGAR

As a member of the Sugar Tariff Board I had an opportunity of studying at first hand the working of protective tariffs in India in relation to the sugar industry, but for that very reason, until the publication of the report[1], I labour under a self-imposed restraint. Most facts in regard to the progress of the sugar industry, however, are public property.

Tariffs and Production.—On the recommendations of the Indian Tariff Board of 1931 an import duty[2] of Rs. 7-4-0 per cwt. (Rs. 5-5-3 per maund) was imposed on foreign sugar and by the Emergency Budget of 1931 a surcharge of Rs. 1-13-0 per cwt. (Rs. 1-5-6 per maund was added, thus raising the total duty to Rs. 9-1-0 per cwt. (Rs. 6-10-6 per md.) The result was a rapid development of the manufacture of sugar in India. The following statistics speak for themselves :

Sugar Production Statistics[3]

Season	No. of mills working.	Cane Factory Production. (Tons)	Sugar refined from Gur. (Tons)	Khandasri (Conjectural estimates) (Tons)	Total Production of sugar in India. (Tons)
1931-32	32	158,581	69,539	250,000	478,120
1932-33	57	290,177	80,106	275,000	645,383
1933-34	112	453,965	61,094	200,000	715,059
1934-35	130	578,115	39,103	150,000	767,218
1935-36	137	912,100	50,067	125,000	1,087,167
1936-37	140	1,128,900	18,500	100,000	1,247,000
1937-38	146	1,025,000	15,000	100,000	1,140,000

Progress of the Industry.—'The Indian Sugar Industry is the Cindrella of the major industries of the country' and its growth is

1. The Report of the Sugar Tariff Board was submitted in December, 1938, but was not published for nearly sixteen months.
2. This was really in 1931 a revenue duty, but became a protective duty under the Sugar Industry Protection Act of 1932 passed in April 1933.
3. *The Investor's Indian Year Book*, 1937-38, p. 359.

according to a commercial authority 'one of the most remarkable accidents of industrial history[1]'. The facts are significant. In 1931-32 the cane factory production was 158,581 tons, in 1937-38 it amounted to 1,025,000 tons *i.e.* seven times the previous figure, while the total amount of sugar production more than doubled itself in seven years. In 1931-32 there were 32 mills working but none with a crushing capacity of more than 1,000 tons, in 1937-38 there were 146 mills mostly of improved size, a dozen of 1,000-1,500 tons and at least half a dozen of above 1,500 tons. The resulting ecomomy in costs is obvious.

Imports.—Equally striking are the figures of imports. As home production went up, foreign imports came down.

Imports of Sugar into British India
1930–31 to 1938

		'000 tons.				'000 tons.
1930-31	...	1,003·1	1938-39			
1931-32	...	556·2		April	...	1·0
1932-33	...	401·8		May	...	1·3
1933-34	...	263·7		June	...	1·7
1934-35	...	223·1		July	...	0·6
1935-36	...	201·3		August	...	0·6
1936-37	...	23·1		September	...	0·9
1937-38	...	14·4		October	...	0·9

In 1930-31 India imported over one million tons of sugar, in the first seven months of 1938-39 the imports were reduced to the negligible figure of seven thousand tons. Thus from a country meeting most of her demand for sugar from abroad India now finds herself in the happy position of producing all of it herself. This, in an important respect, can be regarded as a pleasing vindication of the working of protective tariffs.

Recent Developments in U. P. and Bihar.—The home of sugar industry is in the two provinces, the United Provinces and Bihar which between them are responsible for nearly three-fourths the total manufacture of sugar in the country.

The year 1937-38 witnessed the establishment of the Indian Sugar Syndicate, an organisation with all the U. P. and Bihar Mills as its members, with a view to eliminating uneconomic internal competition and assisting a return to remunerative price levels. The passing of the Sugar Control Act by the Bihar Government and later the enactment of similar legislation by the U. P. Government put an

1. *Monthly Survey of Business Conditions in India,* October 1938, p. 448.

end to the speculation which was ripe during the year owing to certain reasons. There has been since a remarkable improvement in sugar prices. To take an instance the price of Marhowra crystal No. 1 (ex-factory Cawnpore) rose to Rs. 9-11 per maund in October 1938 as compared with Rs. 6-14-0 in October 1937. The average sugar index No. of prices was 145 in October 1938 against 104 in October 1937 and 100 in July 1914[1] .

(ii) PAPER

First Inquiry.—The first Tariff Board for paper sat in 1925. The Board did not favour protection for the manufacture of paper from *sabai* grass but recommended it for producing paper with bamboo pulp.

The Board recommended a specific duty of one anna a lb. on all writing paper and on all printing paper other than newsprint containing 65 per cent. or more of mechanical pulp. They also recommended that Government should assist the industry by an advance of capital to the extent of not more than Rs. 10 lakhs to the India Paper Pulp Company from their own resources or by the guarantee, in respect of both principal and interest, of a public issue of debentures in order that the possibilities of manufacture of paper by the sulphite process might be fully explored.

The Carnatic Paper Mills which intended to make paper from bamboo by the Soda process was to be assisted with capital in the same manner as the India Paper Pulp Company "provided the technical advisers of the Government of India were satisfied that the scheme had reasonable prospects of success". The proposals of the Board regarding the duty but not the financial assistance, were embodied in the Bamboo Paper Industry (Protection) Act, 1925. Instead of monetary aid the period of protection recommended by the Board was enhanced by 2 years, *i. e.*, from 5 to 7 years.

Second Inquiry —In March 1931 a second inquiry was instituted and the main recommendations of the Tariff Board were :

1. Protection to the bamboo paper and pulp industry should be continued by means of a duty.

2. The duty on imported paper should be imposed at the same rate and on the same articles as at present.

3. A duty should be imposed on imported wood pulp at the rate of Rs. 45 per ton.

1. *Monthly Survey of Business Conditions in India,* October, 1938, p. 449.

4. The protective duties on paper and pulp should remain in force for a period of seven years from the 1st April, 1932.

5 A conference should be held with representatives of the different interests to decide the proper definition of the classes of paper to be subject to the protective duty.

6. Compliance by the paper-making companies with the principles stated in para 292 of the Fiscal Commission report should be made a condition precedent to the grant of concessions for the exploitation of forests and to purchases of paper by Government.

By the Bamboo Paper Industry Act of 1932 the duties recommended by the Board on various kinds of paper and on pulp were imposed for a period ending 31st March, 1939. But Government did not accept the Board's suggestion to convene a conference. The conditions laid down in paragraph 292 of the Fiscal Commission's report would, it was explained by Government, apply only to new companies already in existence at the time of the consideration of the question of granting assistance.

Consumption.—India consumes 40,000 tons of newspaper and at present the total annual consumption of paper and boards in India is approximately 180,000 tons valued at over Rs. 5,50,000. With the present rate of development of education the demand is bound to increase.

Production.—An estimate of the development of this industry could be had from the following two tables:

Paper Mills—Number, Capital and Production[1]

(Compiled from special returns furnished by local authorities)

(*a*) British India

Year.	No. of Mills.	Authorised Capital Rs.	Production	
			Quantity (Tons)	Value Rs.
1935	10	1,19,62,500	47,305	1,89,87,767
1934	9	1,14,62,500	44,179	1,71,13,169
1933	9	1,14,62,500	43,206	1,79,36,760
1932	9	1,14,62,500	40,391	1,87,43,909
1931	9	1 14,62,500	40,558	1,85,00,489
1930	10	1,64,62,500	39,706	1,74,12,178
1929	9	1,44,62,500	40,712	1,86,75,694
1928	8	86,61,500	38,016	1,81,94,077
1927	8	82,61,500	33,698	1,64,18.583
1926	8	82,61,500	31,781	1,57,15,878

1. *Statistical Abstract for British India,* 1938, p. 718.

Paper Mills—Number, Capital and Production[1]

(Compiled from special returns furnished by local authorities)

(*b*) Indian States

Years.	Numbers of Mills.	Authorised Capital Rs.	Production	
			Quantity (Tons)	Value Rs.
1935	1	7,00,000	314	76,941
1934	1	7,00,000	326	88,661
1933	1	7,00,000	237	90,147
1932	1	7,00,000	215	65,335
1931	1	7,00,000	156	49,003
1930	1	7,36,796	111	19,088
1929	1	7,36,796	75	25,290
1928	1	7,36,796	126	39,690
1927	1	7.36,796	245	80,029
1926	1	7,36,796	363	1,14,314

It is obvious that the production is increasing very rapidly. The increase, however, it would be noticed, is greater in British India than in Indian States. The number of mills in British India in 1935 was 10, and in Indian States, since long, it is only one.

India, owing to certain difficulties of raw material, cannot produce every type of paper, but in the case of newspaper, the situation is full of possibilities.

Production of newspaper pulp which contains 70-80 per cent. of mechanically ground pulp, has so far been possible only from conifer wood, because grasses and bamboos are unsuitable for this prupose. With the rise in demand for newspaper the vast reserves of conifer wood in the Himalayan forests might have to be utilised. Thanks to the researches in the Paper Pulp Section of the Forest Research Institute at Dehradun, the principal costs of bamboo work have been ascertained and it has been possible to launch work on a commercial scale in Bihar, Orissa, and Burma in respect of the Bamboo pulp industry.

The supply of raw material at one rupee per ton of pulp produced will yield Government Forest Departments many lakhs of rupees annually.

1. *Statistical Abstract for British India,* 1938, p. 718.

Imports.—The following table shows the imports of paper and paste-board into British India[1].

(In thousands)

	Post-war average	1935-36	1936-37	1937-38
Paper & Paste-Board (cwt.)	1,299	2,961	2,943	3,633
(Rs.)	3,49,73	2,74,00	2,60,34	4,14,71

The table shows that our imports which rose in the post-war years have declined in the last few years. The chief suppliers of paper and paste-board into India are the United Kingdom, Germany, Norway and Sweden, the share of each of these countries to the total imports of paper and paste-board was 30·5, 25·2, 10·8, and 11·5 per cent. respectively in 1936-37.

The following table shows the quantity and value of the various types of paper and paste-board imported into British India for the years stated.

Table showing the Quantity and Value of Imports of Paper and Paste-board into British India for the years stated[2].

Paper and Paste-Board	1931-32	1932-33	1933-34	1934-35	1935-36
1. Packing and wrapping Paper : (cwt.)	204,821	324,897	250,268	313,644	405,495
Rs. (000)	31,31	45,35	31,82	38,20	53,02
2. Printing Paper : (cwt.)	615,980	679,493	770,582	758,581	1,014,336
Rs (000)	79,99	83,10	83,83	75,35	96,10
3. Writing Paper : (cwt)	159,301	149,653	151,355	132,881	147,223
Rs (000)	44,21	39,21	36,43	33,28	34,71
4. Old News-Paper : (cwt.)	837,331	947,386	947,241	1,159,390	1,151,667
Rs (000)	34,52	42,39	41,30	45,52	41,69
5. Paste-Board, Mill-Board and Card-Board of all kinds : (cwt.)	275,543	419,543	317,042	416,954	496,926
Rs. (000)	26,00	37,14	27,73	33,39	36,56

It is obvious from this table that the chief items of import are the printing paper and old news-papers, if we take the value figures

1. *Review of the Trade of India*, 1937-38, p. 214.
2. *Statistical Abstract for British India*, 1938, pp. 849-51.

into consideration. From the point of view of bulk the old newspaper occupies the first position and the printing paper second.

Recent Tendencies.—A notable feature of the industry is that in recent years new companies have been clamouring for the direct financial assistance of the local Governments. The Nizam's Government has already sanctioned a scheme for the establishment of a Pulp and Paper Mill at Sirpur—a substantial portion of the shares of which has been purchased by the said Government. The Bombay Government has also been approached for such a purpose. The propriety of Government taking such active part in this manner is doubtful.

In a capitalist state it is best to let the principles of capitalism work out to their logical conclusion. To small industrial units, such as are to be found under the heading cottage industries, assistance may be given for it is only to Government that they can appeal for help. But for larger commercial schemes with a reasonable chance of success there is money in plenty in the ordinary capital investment market, without Government emerging as an investor. Finally, there is the doubtful properiety of using the taxt-payers' money to compete against tax-payers' business.

Future of the Industry.—The prospects for the establishment of new paper mills in the industry are not too bright. Competition is growing more fierce. In 1935 there were five mills working in Bengal, the United Provinces and Bombay. Today there are seven mills working and five more in the course of erection. Three years ago Indian mills were producing about 48,000 tons of paper per annum. This year the output is estimated to be about 60,000 tons per annum, and if, as is expected, four more mills come into production, it will be increased to about 72,500 tons per annum. Some 14,000 tons per annum are imported in the protected qualities of paper of which a substantial proportion—probably about half—could not be made in India. These figures disclose the existence of a very limited market to newcomers, even if they enter the field under Government patronage.

Apart from the new competition, there has been a rise in the cost of raw materials and the tariff protection under which the industry has grown up expires in March, 1939. The tariff Board is at present examining the matter and its report will obviously have a good deal of influence on the course of paper prospects.

(iii) MATCH INDUSTRY

Tariff History.—Previous to 1922 the match industry in the country was insignificant in importance as the successful manufacturing of matches was not carried on, on a commercial scale. When the Government levied, on imported matches, a very high specific duty of Rs. 1-8-0 per gross for revenue purposes, the production of matches within the country became profitable and the Indian industrialists made full use of the opportunity. The growth of an internal industry naturally led to a steady diminution of imports and of the returns yielded by the revenue duty. The Tariff Board was, therefore, asked in 1926 to review the situation thus created and the Board recommended the continuance of Rs. 1-8-0 per gross as a protective duty without limit to the period of duration. The Government accepted all the findings of the Board. The Match Industry (Protection) Act, 1928, levied a protective duty of Rs. 1-8-0 per gross on imported matches without any time limit.

The case of match industry has not been referred to the Board a second time, but in 1931 the protective duty was raised by 25 per cent. to Rs. 1-14-0 per gross, and in 1934 an excise duty was imposed without affecting the level of protection.

Progress of Industry. —The production of matches is carried on both in completely machine-equipped factories producing on a very large scale, and also without the use of machinery in cottages.

As suitable qualities of Indian wood are not yet forthcoming in considerable quantities, a large proportion of manufacturers, therefore use imported splints. But this has not seriously hampered the growth of this industry, as will be clear from the following table :

Table showing the Quantity and Value of imports of Matches into British India for the years stated[1] .

(In thousands)

	Pre-war average	War average	Post-War average	1935-36	1936-37	1937-38
Matches						
Quantity (Gross)	14,560*	14,645	12,725	10,95	703	1,100
Value (Rs.)	88,21*	1,53,31	1,76,68	22,94	14,05	20,44

1. *Statistical Abstract for British India,* 1937-38, p. 217.

*Average for two years, 1912-13 and 1913-14.

A perusal of the above statistics shows the marked decline in the imports of matches in recent years as compared with the pre-war and the post-war averages. The imports have fallen both in bulk and value.

On the other hand, the production of matches in the country during recent years has been increasing, as is evident from the following table:

Production of Matches in India for two years[1].

Matches	1934-35	1935-36
1. Boxes or Booklets Total*	16,450,336	24,406,045
2. Bengal lights or coloured matches*	48,864	142,208

(iv) COAL

Tariff Inquiry.—The Tariff Board inquiry to investigate whether a protective duty should be imposed on imported coal generally or on coal imported from any particular country or countries was started in September, 1925.

The report is an instance of the Board's refusal to recommend protection, and their observations are significant. "On broader grounds we hold strongly that it is idle to seek to restore prosperity to the coal industry by means of protective duties. The one cause for its difficulties is a substantial increase in the demand such as might result from rapid industrial development in India or the recapture of the export markets, and no such increase is conceivable unless every step is taken to make coal cheap. A protective duty on coal is open to greater objection than a similar duty on any other commodity in industrial use, because an increase in its price is reflected in the higher costs of all other industries. It is no less true that of all industries the coal industry is least able to benefit from a protective duty, for it cannot flourish alone, but can develop in proportion to the general industrial development of the country[2]".

Mr. P. P. Ginwala, in a Dissenting Note, suggested the imposition of a countervailing duty of Rs. 1-8-0 per ton on South African coal which received a bounty as part of a deliberate policy of the

1. *Statistical Abstract for British India*, 1938, p. 728.

*Figures from 1934-35 are compiled on the basis of returns received in connection with Sugar and Matches (Excise duty) Acts, 1934.

2. *Tariff Board Report on Coal*, 1926, para 70.

South African Government to develop the export trade in coal, but the President and Dr. Matthai did not consider it advisable as in their view the competition of African coal was more formidable in the external markets of Ceylon and Straits Settlements than in the internal markets of Bombay and Sind[1]. Government agreed with this view and accepted the findings of the Board.

Consumption of Coal.—The Tariff Board had laid great stress on increasing the consumption of coal in the country. The largest consumers of Indian coal are the railways whose demand improved from 6,639,000 tons in 1924 to 7,482,000 tons in 1936. The total consumption in various industries including railways for 1936 is approximately 22,510,000 tons, and the total production 22,610,821 tons, but the annual consumption per head for India compares very unfavourably with that of other countries even in the British Empire, and is a sad indicator of India's industrial weakness.

Annual consumption per head in tons[2].

1936.

India	...	0·06
Great Britain	...	3·80
Canada	...	2·34
Australia	...	1·34
New Zealand	...	1·37
South Africa	...	1·16

The consumption of coal had greatly fallen off during the depression and as there was considerable overproduction prices slumped very heavily. This led to the closure of many collieries and cut in salaries and wages. Towards the end of 1936, however, conditions began to improve and this movement gathered greater force during 1937.

Production, Exports and Imports.—Coal is the most important mineral of India, in its production the country ranks second in the Empire and ninth in the world[3].

1. *Tariff Board Report on Coal,* 1926, paras 47-48 of the *Minority Report* and para 70 of the *Main Report.*
2. *The Investors' India Year Book,* 1937-38, p. 88.
3. The Coal output of the world was 1,420 million tons. In Europe, Britain produced 222 million tons, Germany 156 million tons and Russia 121 million tons. U.S.A. is the largest coal producing country of the world at 388 million tons while in the East the production of Japan was 37 million tons. (*Industry Year Book,* 1938, p. 241).

During 1936 the total Indian output was over 22,500,000 tons valued at about Rs. 6¾ crores (£ 4,700,000).

The production is largely in Bengal, Bihar and Orissa, the two well-known coal fields of India being Raniganj and Jharia coal fields[1].

The following table gives the statistics of production, Exports and Imports:

The Coal Industy[2].
(In 000 tons.)

Year.	Production	Exports	Imports
1929-30	22,375	687·63	237·00
1930-31	22,714	429·68	178·55
1931-32	19,513	516·99	67·76
1932-33	18,064	454·20	47·48
1933-34	18,218	373·72	76·14
1934-35	20,846	311·32	70·92
1935-36	20,875	714·06	58·12
1936-37	20,064	727·45	66·64
1937-38	23,479	1,028·57	83·92

The production statistics exclude Burma throughout, while in the case of exports and imports Burma is excluded from 1935-36 onwards.

The production of coal touched its lowest point in 1932-33 after which it gradually increased till the pre-depression figure was also surpassed by a wide margin in 1937-38. The rise in the coal prices accounts for the production at the higher rate.

The exports of coal suffered greatly during the depression years but the continuous increase after 1934-35 exceeded the pre-

1. The Raniganj coal field was first worked in 1820 and the Jharia in 1893. The Jharia coal field is responsible for 39·05 per cent. of India's production and Raniganj for 32·31 per cent. followed a long way behind by Bokaro 6·27, Pench Valley 5·57, Giridih 3·09 per cent. (*Industry Year Book*, 1938, p. 241).
2. *Monthly Survey of Business Conditions in India*, October 1938, p. 450.

depression level of 687·63 thousand tons. The rise in exports was particularly noticeable in 1937-38. It syncronised with an improvement in the quality of coal and the consequent rise in its price.

The imports of coal on the other hand have been declining so that at present they are about 1/3rd their pre-depression level. The fall in imports is accounted for by the accessibility of better quality coal within the country. Bombay and Sind together take more than 96 per cent. of the total imports, probably because due to their geographical position it proves cheaper for them to import coal rather than buy it from distant provinces in the same country.

Coal Mining Committee of 1936.—A disquieting feature of the industry in recent times was the dissipation of valuable reserves of good coal by many colliery companies. In 1936 a Committee, generally known as the Burrows Committee was appointed by Government to investigate the problem.

The Indian Coal Mining Committee recommended extensive control over methods of coal mining and imposition of a cess of eight annas per ton on coal (including soft coke) and twelve annas a ton on hard coke to be used mainly to defray the cost of stowing mines with sand when coal is excavated in order to protect life and coal.

The report says that India now has only enough reserves of all good quality coal to last 122 years, while the reserves of cooking coal are only adequate for 62 years. The life of the reserves of all good quality coal in Jharia is placed at 81 years and of cooking coal at 57 years. The reserves of coal of inferior quality are practically limited.

(v) CEMENT INDUSTRY

Cement is one of those industries which have grown and developed without state protection, and owe their origin to the last war. Before the war broke out there was only one company producing cement. During the war the number of such companies had risen to 3, all of which had to work under official control which continued from the later war years till the middle of 1919. The industries obtained a good start from the war years and the building industry of the boom period further stimulated it. Indian consumption has been increasing rapidly and Portland cement has come to attain unusual importance.

The production of cement increased in a much greater proportion than its consumption, owing to the facilities available to the increasing number of companies in the production of cement. As a result a severe price-war followed. The years 1923-25, which saw the establishment of 7 new companies, were so bad that the industry had to apply to the Government for protection. The Tariff Board found that in the internal markets the internecine competition was responsible for the troubles of the industry and that the industry was at a special disadvantage in the ports of Bombay and Calcutta, the chief consumers of Portland cement in India. In these ports the imported cement proved cheaper. The Board recommended the grant of protection to this industy in the form of bounties, but the Government did not think it proper to take any action on the report. The industry, however, got over this depression and the production of Portland cement in British India is constantly on the increase as is clear from the following table:

Production of Portland Cement in British India[1].

(Quantity in tons.)

	1932-33	1933-34	1934-35	1935-36
Portland Cement.	592,531	642,914	780,794	890,683

It will be observed that the increase is quite rapid and appreciable.

The increase in production has naturally affected import of cement, as is evident from the following table:

Table showing the Quantity and Value of imports of Cement into British India for the years stated[2].

(In thousands)

		Pre-War average	War average	Post-War average	1935-36	1936-37	1937-38
Cement	Quantity (Tons)	30	95	119	43	38	32
	Value (Rs.)	52,77	33,22	1,10,22	15,58	13,75	12,93

It is clear from the above statistics that the average import during the last war and post-war years was about three times as much as it is today. The continual fall in imports of cement may be regarded as a healthy sign of the progress of the industry.

1. *Statistical Abstract for British India*, 1938, p. 728.
2. *Review of the Trade of India in 1937-38*, p. 216.

LECTURE VI

Protection and Cottage Industries

Having reviewed in the previous lectures the working of protective tariffs in relation to some of the large scale industries, the question naturally arises as to how it has affected the small scale and cottage industries and how far the latter are required in the national economy, if at all. Cottage industries, it is said, can hardly compete with large scale manufacture for lack of internal and external economies and the economic progress of a nation is measured by the development of its big industries.

Evils of Large Scale Industries.—But the establishment of large scale industries does not in itself ensure the maximisation of total[1] or even economic walfare. In the western countries themselves, including Russia, large scale industrialisation has not resulted in universal or even national prosperity. Impressed by the failings of the western system, an American made a special appeal to Mahatama Gandhi to visit London at the time of the Second Round Table Conference:

"Mr. Gandhi," he remarked, "this is a particularly appropriate moment, it seems to me, for you to be visiting London, because, apart from the political questions, it seems to me to be a time when the Western world is disillusioned in regard to machinery in general, in regard to the mass production system we have built up in Germany and America in particular, and people are feeling somewhat bewildered and doubtful as to their value and asking themselves whether we have not, after all, overdone it[2]."

The main evils of large scale industries, at present, are that they lead to privilege and monopoly, they lead to want in the midst of plenty, and they do not lead to work for all able bodied persons.

Need for Cottage Industries.—One of the greatest problems of Indian agriculture and Indian poverty is how to utilise the idle hours of the peasants which amount to six months in the year. Large

1. *"Economics of Welfare"* by A.C. Pigou, 1934.
2. *The Economics of Village Industries*, Ahmedabad, 1938, p. 147.

scale industries need a good deal of time and capital to develop and even then the problem of unemployment or under employment is not solved. The masses in the country are steeped in poverty, they badly need some employment to replace their enforced idleness and some addition to their limited income. This is best provided through cottage or village industries.

The greatest merit of the village industries scheme is that it gives immediate relief, where relief is urgently required. "Hand-spun cloth, hand-made paper, hand-pounded rice, home-made bread and jam are not uncommon in the West. Only there they do not have one-hundredth of the importance they have in India. For, with us, their revival means life, their destruction means death, to the villagers, as he who runs may see. Whatever the machine age may do, it will never give employment to the millions whom the wholesale introduction of power machinery must displace[1]."

Natural Harmony.—Cottage industries thus exist even in highly industrialised countries, but in India with her agricultural preponderance, they have and will continue to have a special importance. In fact, as in the case of agriculture, the interests of large scale and cottage industries can and should be harmonised in a well-balanced economy which is the greatest need of our country. The cottage industries have been specially blessed by Mahatama Gandhi, but as he himself told the economists who met him at Wardha in December, 1938, he is not against large scale industries as such, he is for the diversification of economic life for the good of all, so that villages may prosper along with towns and not one at the expense of the other.

Expression was given to the same thought by His Excellency the Viceroy in his speech at the Tenth Industries Conference held in Bombay on the 23rd January, 1939.

"I have studied your agenda with much interest. I am glad to see the important place occupied in it by the development of small and cottage industries. To my mind the supplementing not only of the earnings but of the healthy human interests of the rural population is more bound up with the development of small subsidiary industries than with that of large-scale industries.

I notice that the Minister for Industries in Madras, whom I had hoped to have been here today laid stress on this point in a recent

1. *The Economics of Village Industries*, Ahmedabad, 1938, p. 33.

speech and that he estimated that big industries could not feed more than ten million people in India[1] ."

Similarly the Hon'ble Sir M. Zafarullah observed :

"The encouragement and development of the major industries of the country must be our concern equally with the cottage industries, if an industrially-minded and technically-efficient community, capable of providing all grades of the personnel essential to modern industry, is to be fostered.

Such developments must depend to a large extent, if not almost entirely, on the steps taken by the provinces and States to effect them and it is necessary that detailed and up-to-date information regarding the industries which it is considered to be necessary to assist and develop should be obtained and made available in a suitable form for the instruction of all concerned so as to provide the basis on which plans for their development may be formed."

Handloom Industry.—Among the most important of the small industries is the handloom which existed long before protection was granted to the cotton textiles and which has progressed ever since the policy of protection was adopted in 1923. The following comparative statistics[2] speak for themselves :

(Quantity in crores of yards)

Year	Net imports	Net available mill production	Handloom production	Net available for consumption	Per capita consumption (yds.)
1923-24	142	154	101	397	12·03
1924-25	177	179	126	482	14·61
1925-26	153	179	116	448	13·18
1926-27	176	206	133	515	15·15
1927-28	194	219	131	544	16·00
1928-29	191	174	108	473	13·52
1929-30	190	229	140	559	15·97
1930-31	87	246	139	472	13·49
1931-32	76	288	150	514	14·28
1932-33	120	311	170	601	16·70
1933-34	77	289	144	510	14·17
1934-35	97	334	146	577	15·60
1935-36	97	350	166	613	16·57
1936-37	79	347	149	575	15·54

1. *The Statesman*, Delhi, January 24, 1930, p. 13.
2. *Review of the Trade of India*, 1936-37, p. 42.

It will be seen that during the fifteen years for which statistics are given handloom production has gone up by nearly 50 per cent., while the mill production has more than doubled. Of the total consumption of cotton piecegoods in India in 1936-37, about 61 per cent. was supplied by mills, 26 per cent. by handlooms and 13 per cent. was imported[1]. Next to agriculture, hand weaving is still the most wide spread-industry of India and its importance was recognised by the Indian Tariff Board of 1932 as providing "an occupation for the agriculturist in the season when agricultural work is slack and enables him to use his time, which he would otherwise waste, in producing goods of a certain—even though limited—value. The industry is spread all over the country".

Relation with Imported Goods.—The special Tariff Board on Cotton specially went into the question of the handloom industry, and how it was affected by the Tariff on yarns. Their finding in this regard was as follows:

"The principal classes of fabrics woven in the handlooms of Madras, for instance, include dhotis, saris, long cloths, twills, shirtings, angavastrams, turban cloths, rumals, bed sheets, towels, Madras handkerchiefs, kailies and lungis, suitings and durries. The Director of Industries, Madras, states:

"It is almost impossible to make any comparison between handloom fabrics and imported cloths even of the same count, owing to their difference in quality, particulars and finish. Further, in handloom fabrics of fine counts weavers use both imported and Indian mill-made yarn (imported yarn as warp and Indian yarn as weft). Again, handloom fabrics of fine counts produced exclusively from imported yarn are generally woven with gold thread or silk borders (plain and figured) or both. Such kinds of fabrics are not imported. Further, the local handblock printed cloths cannot suitably be compared with imported machine printed cloths. The price of cloth made on handloom is higher than that of the imported variety even of the same count and appearance and the former rarely competes with the latter."

The Director of Industries, Bengal, indicates that the competition now mainly comes from Japanese imports and from the United Kingdom. In his view the present condition of the handloom weaving

1. See above, page 50.

industry in Bengal is due to the drop in the purchasing power of the people and the transfer of what demand there is to the cheaper mill-made mass production products in preference to the products of the handloom industry. The Directors of Industries of Bihar and Orissa and the Punjab refer to competition in cloth made from finer counts of yarn from the United Kingdom and Japan. The Punjab Director estimates that during the past five years cotton goods have been displaced in his province to the extent of about 10 per cent. by the imports of cheap artificial silk and mixture goods from Japan. The Director of Industries, Bombay, states that there are not many classes of cloth imported from the United Kingdom which compete directly with handloom cloth produced in the Presidency of Bombay, but he gave instances of direct competition where United Kingdom cloth was selling at relatively lower prices than handloom products. In the Director's opinion the tendency is for handloom weavers to divert their attention to kinds of cloth in which the mill competition is not so severe. He adds that this tendency will naturally be accelerated if the present duties on cloths from the United Kingdom are reduced and as the market left now to handloom weavers is already very restricted nothing should be done to narrow it down further. This is a view generally held and it finds suitable expression in the following extract from the representation of the Government of Madras :—

"There is little, if any, competition between imported cloth and cloth woven on handlooms. The import duty on cloth should, however, be retained as it benefits either directly or indirectly, both the power mill and the handloom weaver, and if the duty was abolished the competition between the power mill and the handloom weaver in certain classes of cloth would be intensified[1] ."

Superiority of Handloom Industry.—The handloom industry is superior to power-loom in several respects, *e.g.*, the smallness of capital for the outlay, cheapness of labour, its suitability to village-life, proximity of market, the facility of working in one's cottage and for one's self, the facility of taking up and leaving off the work at any time, the help from the family (not in the limited sense of the English usage), *i.e.*, from the householders, the absence of manifold disadvantages of working in mills under factory conditions being exposed to risks, accidents, vices etc. and other evils of industrialism, the absence

1 Para 105 of the *Report*, 1936, pp. 104-106.

of the disintegrating influence of the family life, the patronage of noblemen for fancy products in which the individual artist's skill can be appreciated etc. etc.[1]

Importance and Improvement.—This explains the survival of the hadloom industry in spite of the progress of the mills enjoying protection. Moreover, the mill industry itself is sympathetic to the progress of the handloom. In a written statement before the Fiscal Commission the Bombay Mill Owners' Association observed :

> "The Committee are strongly in favour of the maintenance of the Cotton Hand-loom Industry. The Industry in question enables the agricultural population of India to supplement their resources and, properly organised, handlooms can be made to compete profitably with the product of the power-looms in certain styles of cloth[2] ."

And their attitude can be easily understood, when it is remembered that the handloom industry consumes nearly 300 million pounds of yarn produced by the mills. As explained by Mr. R.D. Bell, a former Director of Industries, Bombay :

> "The mill industry and the handloom industry are not really antagonistic to one another. A great part of the output of the handloom is composed of specialised types of cloth which are not suitable as regards quantity or quality, for mass production. The amount of direct competition between the mills and the handlooms is at present restricted."

> "The handlooms provide an enormous market for mill-spun yarns. Probably the greatest improvement in the handloom industry has been the provision of ample quantities of mill-spun yarns of all counts and of regular twist and strength in substitution for the irregular and usually coarse hand-spun yarns of former days[3] ."

Future.—The future of the handloom industry is full of promise, thanks to the interest taken by both the Government and Mahatama Gandhi. In 1934 the Government of India decided to spend a sum of Rs. 25 lakhs over a period of five years with a view to improving the handloom industry[4] . Since then the Indian Government have been making increased grants for the purpose which are supplemented by the provincial governments from their own funds. Stressing the importance of hand-spinning and hand-weaving the two British

1. *M. P. Gandhi's Cotton Annual*, 1937, p. 91.
2. *Ibid.*, p. 92.
3. *Ibid.*, pp. 92-93.
4. The grant has since been extended. "I am glad to be able to announce that it has been provisionally decided to continue for another financial year—1939-40—the hand-loom grant which was due under the original scheme to expire next October". H.E. Viceroy's speech inaugurating Tenth Industries Conference, Bombay, January 23, 1939. (*The Statesman*, January, 24, 1939, p. 13.)

experts, Dr. A. L. Bowley and Mr. D. H. Robertson in their report on "A Scheme for an Economic Census of India" observed :

"The question of subsidiary occupations is very important in India and it is a point for consideration as to how far such occupations are deserving of a certain measure of public support both on the economic ground, that they are adding to the sum total of economic activity and on the broader grounds of their social value. Hand-spinning and hand-weaving are such industries which are best calculated to do this in India".

Referring to the spinning wheel, Mahatma Gandhi said in 1934 : "It is a hand-maid of agriculture, it is the nation's second lung."

Khaddar.—Statistics of Khaddar are not easily available, but the following figures (upto 1927) taken from Gregg's Economics of Khaddar (p. 124) and the Reports of the All-India Spinners' Association for each year (1st October to 30th September) are not without interest.

Production of Khaddar

			Rs.
1924	...	...	9,49,348
1925	...	...	25,12,510
1926	...	...	20,87,003
1927	...	..	23,45,014
1927-28	...	...	24,16,382
1928-29	...	...	31,55,487
1929-30	...	...	53,00,816

These figures show that the hand-spinning and hand-weaving industries have taken a definite place in the economic life of the country along with the mill industry. The production of Khaddar has increased in recent years. At the end of 1937, the production of Khaddar amounted to Rs. 30,15,339, and the money distributed amongst the labourers for weaving and spinning amounted to Rs. 17,63,252. In the first half of 1938, the production of Khaddar amounted to Rs. 25,22,382, as compared to Rs. 12,01,133 during the same period of the year 1937. There was a great increase in sales also, but not to the same extent as in production. The sales of Khaddar during the first half of 1938 amounted to Rs. 23,66,463 as against Rs. 18,84,556 during the same period of the year 1937. It is hoped that people will take more to Khaddar in the years to come[1].

Gur.—Another cottage industry of great importance to the country is gur, spelt *gul* in Bombay and known as jaggery in Southern India. The production of gur is estimated to be four times the production of sugar. The total production of gur in India for the last seven years is estimated as follows:

Production :	Total production of Gur in thousands of tons (including gur used in refineries).
1930-31	2,282
1931-32	2,830
1932-33	3,396
1933-34	3,584
1934-35	3,760
1935-36	4,192
1936-37	4,502

It will thus appear that along with the production of sugar the production of gur has also increased ever since protection was granted to the sugar industry in 1931 and no adverse effect of protection is traceable, so far as the production of gur is concerned. This is gratifying, because the importance of the gur industry to the cultivator is very great inasmuch as according to recent estimates, 69·5 per cent. of the cane produced is converted into gur, and only about 18 per cent. is crushed in the vacuum pan factories, 3·5 per cent. is used in the manufacture of sugar by indigenous processes, about 9 per cent. being used for seed, chewing and other purposes.

Unlike sugar, most of the provinces produce the major portion of gur required for their consumption. The only important province to export gur in large quantities (391,000 tons) is U. P., while in the Punjab (including N.W.F.P. and Delhi), Bombay, Bengal, Rajputana and Central Provinces, the net imports of gur exceed 30,000 tons.

Consumption.—Turning to consumption, the total consumption of gur nearly doubled itself since 1930-31. The average per capita consumption of gur is estimated at 25·8 lbs. for the whole of India and 72·4 lbs. in the United Provinces the home of sugar as against 6·7 lbs. in the case of sugar. Gur is consumed not only like sugar to sweeten other food, but to a large extent as food itself. The two

1. These recent figures have been taken from the *Report of the Punjab Spinners' Association* (Urdu and Hindi edition), dated 2nd October, 1938.

have separate and independent markets. The replacement of gur by sugar is, therefore, small and is not likely to increase in the near future. Properly prepared gur has a higher nutritive value than sugar, as it possesses mineral salts and glucose.

Question of Protection of Gur Industry.—The question of the extent of protection to be granted to the sugar indusry in India only indirectly touches gur. The Tariff Board of 1930 recognised in paragraph 13 of their report that any system of protection for the sugar industry in India must be very largely concerned with the production of gur and in paragraph 25 they stressed the need of timely action, should such action be necessary, to prevent development of any organised attempt from outside to invade the Indian gur market. The danger to which they had referred—an attempt by Java to manufacture gur on a large scale to capture the Indian market or to import into India large quantities of low grade sugar for admixture with Indian gur—no longer exists, as foreign imports of low grade sugar and gur have completely stopped.

Suggestions.—In order that the cottage industries may develop still further and more rapidly, reliable statistics of production and consumption should be collected and made the basis of better organisation or rationalisation. In other words, there should be such a planning as to eliminate every kind of waste and practise the fullest economy. With this end in view and to avoid undue competition, territories between mill and cottage industries may be clearly defined. For instance, in the case of cotton piecegoods certain articles should be exclusively produced on handlooms and certain others by mills. Recently the Bihar Government reported that some provinces were competing with Bihar textile goods in foreign markets and suggested in the interest of the handloom industry in general that some understanding was desirable between the provinces about the class of goods each should manufacture for export. Similarly in the case of gur and sugar which have separate markets, there should be efforts to expand both and not one at the cost of the other.

Another urgent need of the cottage industries is suitable finance. At present they are either unable to get adequate credit facilities or able to get them at only unduly high rates. If this is remedied and public funds are provided for research on a liberal or really business like scale, the cottage industries would make no mean contribution to the economic development of the country.

CHAPTER VII

PROTECTION AND CONSUMERS

"The nineteenth century worshipped the consumer, the twentieth century worships the producer."

The nineteenth century was characterised by free trade, the distinguishing features of the twentieth are restriction, protection, tariffs and quotas. The best thing for the consumer is to get commodities as cheap as possible, and commodities are cheapest under free trade. But in recent years—in the post war period, there is a wave of nationalism and self-sufficiency and every country wants to produce most of the things herself under the shelter of artificial barriers.

Before 1923 there was a conflict between the economic interests of England and India, Lancashire and Bombay. With the introduction of protective tariff there was a danger that the old conflict between India and abroad might give place to a new conflict within the country between province and province, industry and industry and particularly between the Indian producer and the Indian consumer. Only recently the Punjab Assembly by a resolution desired the representation of consumers on the Tariff Board and the Viceroy promised to bear it in mind.

Burden on Consumer.—India entered upon a new policy of protection in 1923 and there is no doubt that while the replacement of the previous policy of free trade meant industrialisation of the country, it also meant the raising of prices for the consumer. This was frankly realised and admitted by the Fiscal Commission of 1921-22.

"The burden of protection arises from the increase in prices. It is obvious that an import duty tends to raise the price not only of the imported article, but also of the competing locally produced article. Cases are analysed by the economists in which for special reasons or for temporary periods the normal result does not follow, or follows only partially. But broadly speaking there is no dispute as to the tendency of import duties to raise the prices of the articles taxed. Further, when import duties are placed on a wide range of articles, there is a tendency for

the general level of prices in the country to be raised; the rise is not confined to the particular articles taxed. For this phenomenon there are various causes. In the first place the import duties tend to check the volume of imports, with the result that a favourable balance of trade is created. This favourable balance is settled mainly by the import of the precious metals, and so far as these find their way into the currency, thereby increasing its amount, the general level of prices tends to rise. In India this argument must be applied with caution, for the precious metals when imported are largely used for other purposes, and comparatively small quantities are likely to go to swell the volume of the currency. A less theoretical argument is that the increased cost caused by import duties enters generally into the cost of production of all articles manufactured in the country and into the cost of transportation. Duties on cotton cloth or on sugar, for instance, may raise the expenditure of the employees of an industry; to meet such increased expenditure higher wages are required; higher wages mean higher cost of production; and this in turn means that the product requires to be sold at a higher price. Instances might easily be multiplied. It may, we think, be taken as the view accepted by economists that a general increase in import duties tends to produce a general rise in prices in a country, and not merely a rise in the price of imported articles and such locally produced articles as directly compete with them[1]."

In this connection the following statement of Pandit Madan Mohan Malaviya on the question of granting protection to the cotton industry is worthy of note, as it convincingly lays at rest the bogey of consumer's burden:

> "I am looking at the question from the national point of view. It is true that, if 4 per cent. more is added as import duty on cloth, the middle class men and the upper class people, who use foreign cloth, will have to pay a little more. But we should be prepared to pay that much more in order that the national cotton industry should be protected. (The Honourable Sir Basil Blackett: "We will all have to pay more.") I am told, Sir, we will all have to pay more. Be it so. Let us pay it. Let us look at the question again from the national point of view. Australia purchased its own cloth for years together, paid higher prices, purchased poorer stuff, but steadfastly adhered to the policy of purchasing only Australian made cloth and thereby built up her textile industries. The Persians, I was recently told and was glad to learn, have laid it down as a rule that no public servant of theirs shall wear any cloth except of Persian manufacture. But I will refer to the most advanced people pehaps in the world, the

1. *Report of the Indian Fiscal Commission,* 1922, para 68.

people of the United States of America. While they have no import duty on raw cotton, while they allow all the raw cotton which can go into their country to go there free of duty, they impose an import duty of 40 per cent. upon manufactures of cotton which may be imported into their country. That is a fact which has a great lesson for us. It is a very simple question of whether a national industry shall be preserved or helped to grow, or whether we shall allow it to be throttled and killed by foreign competition, because a few of our people will thereby be saved a little money during the time. They will save a little for a time, but they will have to be dependent upon foreign manufactures for their supplies in the years to come and the foreign manufacturer will mercilessly fleece them, even more mercilessly than any other manufacturer[1] ."

Gradual Diminution of the Burden.—The limitation of the consumer's burden and the ultimate gain were stressed by the Fiscal Commission itself in paragraph 69 of its Report:

"It is not our intention to suggest that the burden on the consumer arising from protective duties is necessarily permanent. On the contrary, if the industries to be protected are selected with due discrimination, the burden should gradually diminish and eventually cease altogether. But the process of diminution is not likely to be rapid[2] , or to commence immediately. So long as foreign imports continue to enter in appreciable quantities, the price of the goods must in general be regulated by the price of the foreign imports, that is to say, the consumer will be paying the full foreign price plus the import duty. As the home industry develops in efficiency and reduces its cost of production, there will be at first no reduction in prices, but the decrease in the cost of production will merely go to swell the profits of the home industry. This will lead to the more rapid development of the home industry and will hasten the time when it is able to supply the home market almost in full. As foreign imports dwindle to small proportions, prices will become regulated more and more by internal competition, and the consumer will then begin to derive the benefit from the increased efficiency of the local industry, and may in the end obtain the goods as cheaply as if he were free to import them without a duty. If the industry is one for which the country possesses marked natural advantages, he may even obtain them more cheaply." Hence the policy of discriminating protection.

High Revenue Tariff.—It must be remembered that a high revenue tariff already existed in India before protection was given to

1. *Indian Legislative Assembly Debates, (Official Report)*, 6th March, 1924, p. 1244.
2. Fortunately in India it was.

some industries—in fact in several cases all that was done was conversion of revenue into protective duties, *e. g.* sugar, and matches, while in 1931 protective duties were raised for revenue purposes—and there was no prospect of their reduction. All that protection did in such cases was to make the tariff more scientific. Rise in prices in a number of cases was already there owing to revenue consideration and not because of protective considerations. The position was well put by the Indian Fiscal Commission : "But a high revenue tariff such as that now in force in India is open to great objection. A revenue tariff based on free trade principles is one that is imposed on goods that cannot be produced in the country; or, if this condition cannot be observed, it must be kept at a very low rate on goods produced in the country, or countervailing excises must be imposed, so that no protection is afforded to local industries. Until the year 1916 the Indian tariff might be said to have fulfilled these conditions. But since 1916 the tariff has become less and less consistent with purely free trade principles. It gives protection, but it gives it in the least convenient and the least beneficial way. The protection is not calculated on the needs of the industry, nor does it carry any assurance of a permanent policy. It is casual and haphazard. Moreover, it may actually impede industrial development by taxing raw materials and semi-manufactured articles. It appears to us therefore that the necessity for raising a large revenue from customs duties and the obvious inexpediency of ignoring the effect of those duties on the industries of the country must inevitably lead India to the adoption of a policy of protection, as they led Germany in 1879[1]."

Burden to Foreigners.—Moreover, as already pointed out, it is not necessary that the burden of protective tariff must necessarily fall in full or in part on the consumer, for strange as it may appear, it may even be shifted in some cases on to the foreigners. This has actually happened in the case of Indian Iron and Steel[2] and match industries. The following extract from the speech of Sir Purshotamdas Thakurdas in the Indian Legislative Assembly speaks for itself :

> "The budget of the coming year, Sir, has nothing very startling so far as any further items of customs revenue are concerned. The two changes in the customs tariff are of a comparatively small nature

1. *Report of the Indian Fiscal Commission,* 1922, p. 43.
2. "The decline in Steel prices and expansion of market indicate that protective duties have not proved burdensome, that the trade of the country has not suffered and that no serious hardship has been caused to the producer of steel or to the general public." *Report of the Indian Tariff Board,* 1927, also 1934.

but, I think, of some what important significance at this juncture. The specific duties on empty match boxes and splints will certainly protect the match revenue of the Government of India. Despite the 200 per cent. duty on matches, matches are being sold today cheaper in India than they used to be sold during the war. I particularly mention this in order that some Members of this House may realise that a high import duty does not necessarily always come out of the consumer but sometimes is borne and paid for by the seller from abroad who is very anxious to retain a market that he wishes to control. There is no difference of opinion regarding this import duty or this increased import duty on empty match boxes and splints, for at the moment on the 15 per cent. duty that they paid till now, the small factories that were put up here to assemble the component parts imported from abroad, while they invested a paltry Rs. 20,000, made as much as 100 pet cent., and they will still be able to carry on their business.................[1]."

Indices of Prices.—Finally the effect of protective tariffs on consumers may be studied by an examination of the relevant statistics of prices and cost of living. Unfortunately economic statistics are known to be deficient in India, but in the following tables are comprised the index numbers of wholesale prices in Calcutta from 1915 to 1936 and the index number of wholesale prices of the products of two important protected industries and such of the cost of living index numbers as are available. These relate to the working classes and serve to indicate the position of the labourers as consumers. Ordinarily the burden of protective duties on consumers should appear in a rise in the indices of prices as well as cost of living. In point of fact, however, no such rise is visible.

The index numbers of wholesale prices in Culcutta, with July 1914 as the base, rise till 1920 after which year a continuous fall is registered. Since 1931 the index is below 100 and in 1936 only 91.

As regards protected industries (sugar and cotton manufactures with the same base year), prices show a rising trend till 1920 after which the index has been declining continuously with the rare exceptions of a rise in one or two years.

The cost of living index numbers with January 1927 as the base have also declined. The decline in the case of Nagpur and Jubbalpore is appreciable. In Jamshedpur there is a rise throughout, probably because in that case the base is the average of five years preceding 1914. The position with regard to Jharia is the same, though Cuttack having the same base shows a decline since 1931. As regards Bombay in which case July 1914 is the base, there has been a

1. *Indian Legislative Assembly Debates, (Official Report)*, 5th March, 1924, p. 1184.

decline since 1933-34 though previously the index showed a rise. In the case of Ahmedabad July 1927 is the base and it is since that very year that the index has been falling.

Thus on the whole, the working class cost of living index numbers show a decline rather than a rise, just as the index numbers of wholesale prices in Calcutta show a decline. On the basis of these figures it might be inferred that the labourers have gained, because even if their money wages have not risen, their real wages show a definite rise.

It might be urged that this is not due to the grant of protection, but due to the world wide factor of fall in the prices. And it may further be argued that the labourer, due to the protectionist policy of the Government, has not made the maximum use of this fall. The statistics given above do not throw light on this aspect of the question which involves a comparison of the condition of labourers in a protectionist country like India and a free trading country, the example of which is hard to find, during the period of depression. Further, it may be pointed out that had protection not been granted to these industries in India they would not have withstood the recent depression as well as they actually have; and who can tell what the lot of the labourers might have been if the factor of protection were not there.

Index Numbers of wholesale prices in Calcutta during each month 1915-36.*

(Prices in July 1914 = 100)

Compiled from the Indian Trade Journal

All Commodities

Year	Jan.	Feb.	March.	April.	May.	June.	July.	August.	Sept.	Oct.	Nov.	Dec.	Annual average
1915	110	112	108	108	110	111	113	113	114	114	116	116	112
1916	124	122	123	123	128	126	124	125	127	131	140	143	128
1917	141	140	142	136	138	136	141	140	142	152	169	165	145
1918	169	170	170	163	166	170	176	187	194	188	181	184	176
1919	184	181	178	188	195	197	212	203	198	203	207	212	196
1920	216	207	197	198	207	204	207	206	206	204	192	178	202
1921	177	172	173	181	181	176	181	182	185	182	177	178	179
1922	175	177	181	180	183	179	176	172	171	172	174	172	176
1923	175	176	177	173	172	170	165	167	169	169	172	174	172
1924	169	172	174	169	171	171	174	175	174	176	175	171	173
1925	165	164	162	163	159	153	156	154	154	157	162	158	159
1926	159	154	151	149	146	147	143	145	146	144	147	146	148
1927	145	148	146	145	146	148	149	151	149	147	148	148	148
1928	145	144	144	146	145	144	146	143	142	143	146	145	145
1929	145	144	143	140	139	138	142	143	143	140	137	134	141
1930	131	126	125	123	121	116	115	114	111	107	103	100	116
1931	98	99	100	98	97	93	93	92	91	96	97	98	96
1932	97	97	94	92	89	86	87	91	91	91	90	88	91
1933	88	86	82	84	87	89	91	89	88	88	88	89	87
1934	90	89	88	89	90	90	89	89	89	89	88	88	89
1935	94	90	87	88	91	91	91	89	89	93	92	93	91
1936	92	91	91	92	90	90	91	90	91	93	93	94	91

The Statistical Abstract for British India, 1938, p. 549.

Index numbers of wholesale prices in Calcutta[1]
Selected Articles.

Period	Sugar	Cotton raw	Cotton manufactures
1914 end July.	100	100	100
1915 annual average.	163	89	97
1916 ,,	184	121	134
1917 ,,	189	174	203
1918 ,,	180	309	298
1919 ,,	268	230	295
1920 ,,	407	152	325
1921 ,,	270	143	280
1922 ,,	221	191	239
1923 ,,	246	244	221
1924 ,,	239	272	228
1925 ,,	179	205	210
1926 ,,	178	147	173
1927 ,,	171	167	159
1928 ,,	165	167	159
1929 ,,	162	146	160
1930 ,,	149	91	139
1931 ,,	135	83	123
1932 ,,	146	92	119
1933 ,,	131	80	113
1934 ,,	125	73	115
1935 ,,	128	78	117
1936 ,,	121	89	111

Working class Cost of Living Index Numbers in certain Industrial Towns in India[2].

(Compiled from statements issued by Provincial authorities)

Bombay. (Base July 1914 = 100)

Year	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
1926-27	153	153	155	157	155	155	155	154	156	156	155	155
1927-28	153	152	154	156	157	154	151	150	151	154	148	145
1928-29	144	147	146	147	146	145	146	147	148	149	148	149
1929-30	148	147	147	148	149	149	149	150	150	147	144	141
1930-31	140	139	140	139	136	136	131	127	121	117	113	111
1931-32	111	110	109	108	108	108	108	108	109	110	110	111
1932-33	108	107	107	109	109	109	109	110	110	109	106	106
1933-34	101	100	104	103	103	102	100	101	98	96	96	94
1934-35	93	94	95	97	97	100	100	101	99	98	99	98
1935-36	98	100	101	101	103	103	103	104	105	103	102	102

1. *The Statistical Abstract for British India*, 1938, pp. 550—1.
2. *Ibid.* p. 566.

Working class cost of living index numbers in certain industrial towns in India[1].

(Compiled from statements issued by provincial authorities)

Ahmedabad (Base : year ending July 1927 = 100)

Year	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
1927-28	-	-	-	-	101	101	100	98	96	93	92	90
1928-29	91	91	95	97	96	96	97	97	99	99	99	99
1929-30	96	94	96	98	98	97	98	98	95	93	91	89
1930-31	89	89	90	88	87	85	82	81	77	75	74	75
1931-32	75	75	73	75	77	75	74	75	77	76	75	75
1932-33	74	74	75	75	76	78	79	78	76	73	72	76
1933-34	70	71	72	73	73	73	73	73	71	70	69	69
1934-35	69	71	72	72	71	71	71	73	72	72	73	70
1935-36	69	70	71	71	72	72	70	72	71	70	70	69

Working class cost of living index numbers in certain industrial towns in India[2].

(Compiled from statements issued by provincial authorities)

Nagpur (Base : January 1927 = 100)

Year	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
1926-27	99	103	102	106	105	108	106	103	102	100	100	103
1927-28	103	105	106	104	103	102	101	100	100	98	97	92
1928-29	93	93	96	98	101	97	98	96	98	98	95	98
1929-30	96	96	98	98	99	100	97	97	94	94	94	92
1930-31	90	89	85	84	83	83	79	76	68	68	67	66
1931-32	66	62	63	63	64	63	63	64	65	63	60	62
1932-33	61	61	62	63	62	62	62	62	60	58	59	58
1933-34	55	59	59	59	58	58	58	59	58	57	57	54
1934-35	54	54	57	58	57	57	58	59	57	56	59	58
1935-36	57	58	58	58	58	59	60	61	58	58	58	58

Working class cost of living index numbers in certain industrial towns in India[3].

(Complied from statements issued by provincial authorities)

Jubbulpore (Base : January 1927 = 100)

Year	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
1926-27	93	93	95	95	96	99	101	104	100	100	99	96
1927-28	94	94	95	94	92	93	94	92	91	90	91	92
1928-29	92	90	91	93	93	93	95	95	95	92	97	93
1929-30	90	88	87	88	90	90	92	91	89	87	87	83
1930-31	79	78	78	78	76	76	74	71	65	63	62	62
1931-32	62	60	60	62	64	63	62	63	62	61	61	62
1932-33	57	57	56	57	60	61	61	60	57	58	57	56
1933-34	52	56	54	55	55	54	54	55	54	52	52	52
1934-35	53	53	54	55	54	56	56	57	56	55	58	53
1935-36	54	55	55	57	58	57	59	56	56	56	55	54

1. *The Statistical Abstract for British India*, 1938, p. 568.
2. *Ibid.*, p. 567.
3. *Ibid.*

Working class cost of living index numbers in certain industrial towns in India[1].

(Compiled from statements issued by provincial authorities)

Jamshedpur (Base : Average of five years preceding 1914 = 100)

Year	April.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
1926-27	176	178	178	181	190	190	193	191	177	176	171	169
1927-28	168	169	175	171	184	184	185	184	180	170	170	173
1928-29	172	175	180	179	179	182	186	183	180	169	168	169
1929-30	168	172	175	174	173	172	172	171	174	167	162	161
1930-31	152	150	147	150	149	143	139	133	123	121	125	126
1931-32	118	117	118	121	122	124	121	117	117	121	125	126
1932-33	118	118	121	117	115	112	111	108	105	107	105	104
1933-34	105	104	106	109	110	105	104	103	105	105	105	103
1934-35	104	105	105	108	108	111	109	107	101	111	109	105
1935-36	107	109	109	109	111	109	118	113	108	105	105	100

Working class cost of living index numbers in certain industrial towns in India[2].

(Compiled from statements issued by provincial authorities)

Jharia (Base : Average of five years preceding 1914 = 100)

Year	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
1926-27	178	181	183	202	206	208	209	199	178	168	182	175
1927-28	173	182	192	195	195	190	185	176	162	170	171	171
1928-29	163	176	184	188	185	185	182	182	165	165	162	163
1929-30	167	170	171	174	176	176	179	165	150	146	146	144
1930-31	153	164	157	150	158	147	144	142	115	122	123	124
1931-32	121	123	123	129	127	127	128	119	101	122	123	124
1932-33	108	111	115	119	117	116	119	100	95	95	93	90
1933-34	93	96	94	95	96	97	102	103	87	86	88	88
1934-35	91	100	100	106	110	110	108	105	99	102	91	98
1935-36	99	101	101	109	109	109	114	105	100	99	100	97

Working class cost of living index numbers in certain industrial towns in India[3].

(Compiled from statements issued by provincial authorities)

Cuttack (Base : Average of five years preceding 1914 = 100)

Year	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
1926-27	147	157	162	173	196	178	154	159	152	150	155	158
1927-28	157	164	159	162	165	167	152	148	141	139	138	142
1928-29	144	153	159	164	158	155	146	150	150	143	135	133
1929-30	134	143	146	154	153	145	143	142	134	126	123	121
1930-31	124	130	128	127	123	123	109	112	98	92	89	93
1931-32	91	93	96	97	100	94	89	91	81	92	89	93
1932-33	85	90	93	92	84	85	85	80	77	74	75	76
1933-34	75	76	83	84	88	89	87	80	74	78	78	78
1934-35	82	91	93	96	96	95	89	91	82	82	82	82
1935-36	83	86	88	94	94	96	88	93	91	89	88	87

1. *The Statistical Abstract for British India*, 1938, p. 568.
2. *Ibid.*
3. *Ibid.*

LECTURE VIII

Protection and Labour

Importance.—The importance of the effects of the protectionist policy on the conditions of labour in the industries with or without protection cannot be exaggerated. The question was raised in the Indian legislature on the very first occasion when protection was granted to the Indian iron and steel industry in 1924. The Hon'ble Pandit Madan Mohan Malaviya observed :

"There are several Honourable Members who though generally desirous of giving necessary protection to the Tata Iron and Steel Works, are not quite satisfied about the management of labour within those works. As I found from the papers on the table that several Honourable Members have misgivings on that score, I have thought it right to refer to it. I hope that something will be done by the Government to obtain an assurance from the Tata Iron and Steel Works that all reasonable complaints of labour will be reasonably considered and that necessary redress will be offered. That is essential. *When any company comes before the national Assembly to ask for protection, it is certainly right that the Assembly, representing the people and not merely the capatialists, should insist upon being assured that every reasonable complain of labour will be listered to and, where necessary, remedied*[1] ."

With the progress of industrialisation in the country during the last fifteen years there has been a natural increase in the number of workers and the labour problems have assumed greater importance and engaged increasing attention,

Number of Industrial Workers.—According to the Indian Census the total number of persons occupied in plantations, mines, industry and transport in 1921 were 24,239,555 of whom only 2,685,909 wer employed in mines, plantations or organised industrial establishments having 10 or more employees. The total figure under the same three heads in 1931 was 26,187,689, and on the basis of labour in similar establishments being in the same proportion, the

1. *Indian Legislative Assembly Debates*, 27th May, 1924, p. 2323. My italics.

latter figure would work out to be 2,901,776. Figures of the daily average of persons employed indicate that it increased during the preceding decade at the rate of about 30 per cent., in which case it would be 3,500,000. Probably 5,000,000 may be fairly taken as the figure of organised labour in India in 1931, as the figure of 3½ million represents only the daily attendance in registered factories[1].

The numbers employed in the chief organized industries in the period are given below:

Average daily number of persons employed by different industries in British India[2].

	1930	1931	1932	1933	1934	1935
(A) Perennial Factories.						
1. Cotton (Spinning, weaving and other factories) ...	352,268	381,205	395,807	362,614	383,477	437,065
2. Iron and Steel Foundries ...	3,250	3,244	3,213	3,153	4,251	4,363
3. Iron and Steel, smelting and steel rolling mills ...	30,484	26,892	23,145	23,726	26,928	32,711
4. Lead smelting and lead rolling mills ...	4,489	3,056	2,972	3,227	3,092	220
5. Sugar ...	15,203	2,974	3,766	4,971	7,910	4,282
6. Matches ...	17,137	15,268	14,524	13,637	15,923	17,532
7. Paper Mills ...	5,597	5,674	5,611	5,944	5,995	6,621
8. Paper Pulp ...	1,361	571	582	602	671	665
9. Cement, Lime and Potteries ...	6,149	5,142	4,989	5,280	6,994	7,857
10. Glass ...	2,390	3,488	4,467	5,005	5,037	6,031
(B) Seasonal						
1. Sugar ...	(a)	15,406	30,493	44,574	57,113	66,811
2. Cotton, Ginning and Baling ...	138,833	126,696	120,633	129,233	130,952	131,002

Rise in Quantity and Quality.—Shortage of skilled or trained labour constituted for a long time a serious handicap in the way of

1. *Census of India*, 1931, Vol. I., p. 285.
2. *Satistical Abstract For British India*, 1934, pp. 806-813; 1935, pp. 822-29; 1936, pp. 842-49; 1938, pp. 692-699

(a) Shown under perennial group.

Indian industrialisation. But the situation has surprisingly altered during the last fifteen years, so that the complaint at present is not that there is want of adequate labour supply but that there is an excess of it. Apart from the indication of the figures quoted above[1], this fact has been noticed in successive tariff inquiries, and is in itself no small tribute to the working of protective tariffs. From a country predominating in agriculture and illiteracy India has become 'judged by any absolute standard an industrial country of great importance and still greater potentialities[2]'. She is now included among the eight leading industrial countries of the world and as such has a permanent seat on the Governing Body of the International Labour Office[3].

During the last two decades the improvement of Indian labour has been even greater in quality than in quantity. The first industry to be protected was iron and steel and the following compliment paid by Sir Thomas Holland to Indian labour working in that industry is very significant, because iron and steel is an industry which requires the highest degree of skill and intelligence.

'Any one who has visited the Tata Steel & Iron Works will come away thoroughly convinced with the conclusion that with Indian labour you can tackle any industry for which the country is suitable. I have seen labourers at Sakchi who only a few years ago were in the jungles of Santals without any education. They are handling now red-hot steel bars, turning out rails, wheels, angles of iron as efficiently as you can get it done by any English labourer. You cannot have a better test of the quality of labour and you cannot be prepared for more satisfactory results.'

The same can be said in regard to other industries, for instance cotton, while in sugar the adequacy and efficiency of labour are a matter of common knowledge. Thus the Indian labourer, in spite of his illiteracy and rural character has proved his capacity for skilled work and shown that given opportunities, Indian labour, like Indian capital, is by no means shy. The protected industries are

1. The Indian Franchise Committee in 1931 estimated the total number of non-agricultural workers at 25 millions. In 1922 the estimate of Government was 20 millions and for 1939 the estimate might well be 30 millions.

2. *Problems of Industry in the East* by H. Butler, International Labour Office, Geneva, 1938, p. 3.

3. *Ibid.*

largely owned, managed and manned by Indians. In some factories foreigners are still working as managers, or technical experts, but their number is definitely on the decline and their replacement by trained Indians is only a matter of time.

Labour Expensive.—It must, however, be admitted that compared with western or Japanese standards, Indian labour is dear and there is even a deficiency of highly skilled workers and technical experts. The labour coefficient in the Tata Steel Works is estimated to reach 75 per cent. of European or American efficiency in some dapartments, but the general level is much lower. The ratio of comparative inefficiency in various industries varies from 25 to 85 per cent. of the European standard[1]. The reasons are not far to seek.

For one thing, the facilities for scientific and technical training are limited, and as pointed out by Mrs. Vera Anstey in her admirable book, "education in general still suffers from the artificiality and superficiality inseparable from a system grafted wholesale into one country from another without adequate adaptation to the new surroundings[2]."

In this connection it is pertinent to observe that the managing agency system is also responsible for much of the evil[3]. The managing agents are sometimes interested in the employment of their relatives and friends and appointments are not always made on grounds of strict merit or efficiency. Thus a person has sometimes no particular qualifications for a post; it is a matter of chance or luck, if he acquires them afterwards by experience. On the other hand, while qualified men go unemployed, trained workers have sometimes to work under ignorant or incompetent officers. The evil is accentuated in some provinces by considerations of communalism.

The method of recruitment is still worse in the case of lower staff. The practice varies from industry to industry. For instance, in the iron and still industry there are regular employment bureaus which maintain a register of skilled and unskilled workers and employ them as vacancies occur. But in many industries there are middlemen variously known as jobbers, sardars, mukadams or mistries who are responsible not only for the recruitment of labour, but who look after the workers and have powers to promote or punish them. The evils

1. H. Butler, *Op cit.*, p. 23.
2. *Economic Development of India* by Vera Anstey, London. 1936, p. 231.
3. *Industrial Labour in India* by S. G. Panandikar, 1933, pp.37 *et seq.*

of the system can be well realised[1] and inefficient or discontented staff in all grades naturally adds to the cost of production.

New Schemes. — Experience has shown even in India that educated and trained workers are the cheapest in the long run, and the industrial leaders are becoming alive to the situation. The iron and steel industry from early days has had a system of training men for subsequent employment and now it is being extended to other industries.

As a notable instance, a scheme full of promise has been recently launched by our leading industrialist of Delhi in his cotton mills. The scheme provides for the recruitment of graduates who are employed as apprentices and given training. At the end of the period it is intended that those who prove successful will be given permanent employment on a regular scale. Similarly, Lala (now Sir) Shri Ram proposes to take the first five or ten young men who just miss a place in the I.C.S. competitive examination, give them trainnig for a period of one or two years on Rs. 150 p.m. and then employ them in a grade of Rs. 250-750. The scheme is highly commendable not only for its originality and as some cure of unemployment, but for attracting the best brains to industry so necessary for our industrial progress. The prosperity of an industry or business must depend ultimately upon the character and training of its workers and upon the conditions of their work.

Housing Conditions. —The importance of good houses and healthy surroundings must be obvious. Mr. M. N. Joshi dealing with the dangers of industrialism observed in the Indian Legislative Assembly in the course of discussion on the adoption of a policy of protection on 16th February, 1923 :

"Those people who want to know the dangers of industrialism should visit the slums of Bombay. That beautiful island given by nature to this country has been turned into a hell by the industrialists[2] ."

1. On the 10th February, 1930, some interesting evidence on the subject of mal-practices in the recruitment of labour was given to the Whitley Commission in Calcutta. They were told by responsible witnesses that it was almost impossible for a man or woman in certain mills, not only to get a job, but even to retain it, without bribing the *Sardar*. Even high officers were not free from the evil. A case was quoted in which a *Sardar* actually bought his lucrative post for Rs. 1,000 from a mill manager. The Sardar had no scruples even about exploiting little children by accepting bribes from their mothers for "unlawfully getting their children an extra shift in another mill."

2. *Indian Legislative Assembly Debates, (Official Report)*, 16th February, 1923, p. 2372.

According to the Indian Industrial Commission "the worst type of *chawl* consists of a two, three or four-storeyed building with single room-units either placed back to back or separated by a narrow gulley two or three feet wide, usually traversed by an open drain. The rooms, especially those on the ground floor, are often pitch dark and possess very little in the way of windows.... The ground floors are usually damp owing to an insufficient plinth.... Water arrangements are insufficient and latrine accommodation is bad, though the latter is being steadily improved. A most insanitary smell hangs round these buildings...." (*Report*, para 241.)

Since 1923 there has been appreciable improvement in the matter of housing conditions in the various industries, but the best arrangements have been made by the Tata Iron & Steel Company at Jamshedpur by building decent houses for most of their employees and helping others to build their own houses by means of loans at very low rates of interest and repayable in easy instalments[1]. In other industries provision for houses ranges from 10 to 40 per cent. of the workers[2] and while some mills leave little to be desired, in others there is nothing which is not to be desired. This lack of suitable housing accommodation for workers is largely responsible for the instability of industrial labour[3].

Labour Legislation.—Thanks to the policy of industrialisation during the last 15 years, and the great stimulation provided by the International Labour Office[4], and the Report of the Royal Commission on Indian Labour[5], important labour legislation with a view to improving the worker's lot has been undertaken in India during the last decade[6]. Act No. XXV of 1934 which came into effect from 1st January, 1935, comprising of 7 chapters and 84 sections, is the most important labour measure yet enacted in India. The Act applies to all factories employing more than 20 persons in a day, and the Local Governments are given power to extend the Act by notification

1. *Labour and Housing in India* by R. B. Gupta, 1938, p. 185.
2. *Industrial Labour in India* by S. G. Panandikar, p. 237.
3. See Article on Labour by Sir Alexander Murray in *Modern India*, edited by Sir John Cunningham, 1931, p. 292.
4. India has by now ratified fourteen conventions, and legislation based on others has been passed.
5. Thanks to the Whitley Commission Report, 18 Central and 13 Provincial Acts have been passed during 1932-37 vide Appendix I.
6. *Bulletin No. 61 of Indian Industries & Labour. Indian Labour Legislation*, 1932-37, p. 9.

to smaller establishments, to apply law in whole or in part. The provisions under the Act relating to health and safety, have been brought in line with similar provisions in other countries. and in accordance with the Labour Commission's specific recommendations relating to welfare, the following new provisions were introduced in the Act :—

(1) Local Governments were enabled to insist on the provision and proper custody of first-aid boxes in larger factories ;

(2) Provision was made for the supply of washing water for all workers dealing with injurious or obnoxious substances : the Act already secured the supply of drinking water for all operatives ;

(3) Local Governments were empowered to insist on the provision of creches in factories where 50 or more women are employed. The Commission suggested the placing of the limit at 250 with power to include factories employing fewer women and the provision of creches in cases where women are employed on processes involving an impure atmosphere.

Further Government's power to secure the health and safety of the operatives were widened, *e. g.* to specify any operation involving a serious risk of bodily injury, poisoning or disease as hazardous; to prohibit or restrict the employment on it of women, adolescents and children; to secure the medical examination of all persons employed or seeking employment and to provide for their protection. Under the Act Government of India prohibited the employment of women in such occupations as various lead processes, work with rubber solutions and soluble chromium compounds, cellulose spraying and sand blasting.

The Act also provides for maximum hours of work in seasonal and perennial factories, limits on and regulation for payment of overtime, control of artificial humidification and removal of defects in the construction of a factory likely to be dangerous to the workers.

Workmen's Compensation Act.—Another very important Act safeguarding the labourer's interest is the Indian Workmen's Compensation Act first passed in 1923, but revised in 1933. From 1st April, 1937 powers vested by the Act in the Goverment of India have been transferred to provincial Governments. The Amendment Act of 1933 extended to about 6 million workmen as against 4 million formerly covered and was more liberal all round. It made substantial changes in the scales of compensation. For instance, while formerly the compensation for fatal accidents ranged from Rs. 240 to Rs. 2,500, now it is from Rs. 500 to Rs. 4,000. Similarly in the case of

permanent total disablement the limits of Rs. 336 and Rs. 3,500 were raised to Rs. 700 and Rs. 5,600 respectively. Improvement was made in the compensation rates for temporary disablement also, the most poorly paid workmen being allowed full wages.

Owing to ignorance and illiteracy, however, workers and their dependents are not able to derive full benefit of their rights.

Among other reforms effected through legislation may be mentioned the abolition of the pernicious system whereby in the Amritsar Carpet Workshops the labour of young children was pledged in advance by their parents or guardians to the weaving masters[1]. Similar abuse was noticed in the Ahmedabad cotton mills and the Whitley Commission rightly observed that the system was worse than the practice of indentured labour 'for the indentured labourer is, when he enters on the contract, a free agent which the child is not[2]'. The Commission recommended that all such bonds relating to the labour of childern under 15 should be void and made a criminal offence. By Act II of 1933 all agreements to pledge child labour are declared null and void and criminal penalties are provided for persons making such agreements or taking advantage of them.

Present Conditions of Work.—It will thus appear that the last decade has witnessed considerable improvement in the conditions of work in all the protected and some of the unprotected industries. According to Mr. Harold Butler's Report published in 1938, the conditions prevailing in large scale industry in India do not compare unfavourably with those in many European countries. "As industry is of recent growth, factories are as a rule spacious, clean, well-lit and well-ventilated. In view of the intense heat of summer particular attention is paid to air-cooling in the textile mills, some of which have introduced air-conditioning with considerable benefit to themselves and the workers. Hours of work are limited by law to 54 per week, and employers testified almost unanimously that the reduction first to 60 hours under the Washington Hours Convention and later in 1935 to 54 hours has resulted in an improvement rather than in a reduction of output. Many enterprises have already gone further. In all the dockyards, some of the larger engineering and almost all the railway workshops as well as in a number of

1. A loan was given by the weaving master with an undertaking to pay so many rupees a month; in return the labour of the child was pledged for an indefinite period.
2. *Report*, p. 102.

textile mills, a 48-hour week is in operation. In the Tata Iron & Steel Works eight-hour shifts seem to be the general rule, while in at least one large cotton mill in Bombay three shifts of 7 hours have been adopted[1]." In the case of children the hours of work are limited to 5 hours and they cannot be employed before 6 a. m. nor after 7 p. m.

Both the employers and workers now appreciate the advantages of progressive reduction of hours which has led to greater intensity of work. The same authority observes that 'the safety and health provisions relating to factories are generally well observed, and the introduction of workmen's compensation since 1923 has no doubt helped to improve the standard of safety. Maternity benefits have been introduced in Bombay, Madras, the Central Provinces, Delhi and Ajmer and are likely to be extended in the very near future to Bengal and the United Provinces. The night work of women and of young persons has been abolished since 1922 and child labour is not permitted under the age of 12.[2]'

These conditions, however, obtain only in power driven plants employing twenty or more persons[3]. Things are different in innumerable small factories and workshops all over India employing many millions of persons. "In these places" Mr. Butler writes, "as I had opportunities of observing, no provisions as to health, sanitation, lighting, ventilation or safety apply. Child labour is permitted, and in some industries extensively employed. Hours are unlimited and are usually long, though there is a great deal of casual absenteeism and the concentration of effort is much less than in the large factories[4]".

As regards cleanliness in the mills and their surroundings, it is not of a uniform nature, but varies from one mill to another. The mills under European management are usually cleaner than those under Indian management, but there is a distinct improvement in the case of the latter and some of the Indian managed mills are as clean as any in the country.

Besides small establishments labour conditions are wholly or partly unregulated in the docks, the building industry and the shops,

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1. Harold Butler, *op. cit.*, pp. 11-12.
2. *Ibid.*, p. 12.
3. "In 1935, they comprised 8,831 establishments employing over 1½ million persons, 229,726 of whom were women, 33,018 adolescents between 15 and 17, and 15,457 children over 12 and under 15." *Statistics of Factories subject to the Factories Act, 1934, for the year ending 31st December, 1935*, pp. 2-3.
4. Butler, *op. cit.*, p. 13.

while the mining industry is subject to special regulation. The hours of work in the mines are 55 per week on the surface and 9 a day underground and no person under 15 can be employed in or about a mine and no person under 17 can be employed underground without a medical certificate. Women have now been completely eliminated from employment underground and the Indian Government has recently ratified the convention on the subject.

Industrial Relations.—The recent years have been marked by a deterioration in the relations between the employees and the employers as evidenced by frequent strikes and general discontent among the labourers. Taking the last decade there have been about 150 disputes each year, involving on the average some 250,000 workers and resulting in a loss of working days ranging from one million to 32 millions per annum and averaging about six millions[1]. It is sometimes alleged that the industrial troubles are fomented by interested agitators and are due to political or communist propaganda. While it is true that the coming into power of the Congress has been a signal for a strong move on the part of labour to better their wages and conditions, Mr. Butler supports the view of Whitley Commission that there has rarely been a strike of any importance which has not been due, entirely or largely, to economic reasons[2].

The main cause of the trouble is said to be the malpractices of the intermediaries and the solution is a well-organised employment office. It is claimed that the expenditure of time and money involved by such a system would be amply compensated by the absence of stoppages and the smoothness of operation which is procured[3]. Even more important is the removal of ignorance and illiteracy from among the labourers.

Trade Unions.—The growth of trade unions has been very slow in this country. It is weakest in the mining industries and plantations. The movement has to encounter many difficulties in this country. The migratory character of the bulk of Indian labour presents a serious obstacle. Another great handicap is the poverty of the average worker to whom even a small subscription can be a serious burden. Differences of language and race are separating factors and to these is frequently

1. *Industrial Disputes in India,* 1921-36. Bulletins of Indian Industries and Labour, Nos 43 and 62.
2. *Report on Labour in India,* p. 335.
3. Butler, *op. cit.,* p. 17.

added the active opposition of the jobbers. But there are even more fundamental difficulties. To be successful and effective, the movement demands two things: a moderate spirit and education. The democratic ideal has still to be developed and the lack of education raises a tremendous barrier.

From the following figures it is clear that the number of unions is increasing every year but the same cannot be said about the membership. However, as compared to 1927-28 (the year following the Trade Unions Act of 1926) the membership has more than doubled in 1935-36. But the progress, on the whole, is admittedly small.

Number and Membership of Registered Trade Unions in British India[1].

Year.	No. of Trade Unions		Membership.
	Registered.	From whom returns received.	
1927-28	29	28	100,619
1928-29	75	65	181,077
1929-30	104	90	242,355
1930-31	119	106	219,115
1931-32	131	121	235,693
1932-33	170	147	237,369
1933-34	191	160	208,071
1934-35	213	183	284,918
1935-36	236	205	268,326

Lack of literacy is also responsible for the slow growth of satisfactory Trade Unions organised by the labourers themselves. In the cotton industry, however, the Labour Textile Association of Ahmedabad under the patronage of Mahatma Gandhi with about 30,000 members is a fine example of the extreme usefulness of a well-organised union. Since 1920 it has successfully practised a system of conciliation and arbitration of disputes jointly with the Millowners' Association with

1. *Indian Year Book*, 1938-39, p. 547.

the result that there has been no serious strike in the mills recognising this Association.

In this connection the experiment tried in Bombay with the appoinment of a Labour Office has met with a fair success and is well worth adoption in other provinces. At the same time, there is imperative need for the collection, collation and analysis of labour statistics on wages, hours, working practices, economic conditions etc.

Education.—The greatest weakness of Indian labour is ignorance and illiteracy[1]. As the Indian Labour Commission put it, "in India nearly the whole mass of industrial labour is illiterate, a state of affairs which is unknown in any other country of industrial importance. It is impossible to overestimate the consequences of this disability, which are obvious in wages, in health, in productivity, in organisation and in several other directions. Modern machine industry depends in a peculiar degree on education, and the attempt to build it up with an illiterate body of workers must be difficult and perilous[2]."

Bearing in mind the handicap of general illiteracy the account which Indian labour has given in the industries of the country is by no means unsatisfactory, and given education and training there is no limit to their achievements and there is no reason why they should not be able to do the wonders associated with the name of the Japanese. "It is yet to be seen how much we can do with this our 'Greatness in small things.' Human fingers are still the very best machines that mankind do possess, and if the 400,000,000 dexterous fingers of the Japanese[3] are made to be fully emloyed, we know not what prodigious revolutions they will make in industral circles. The time may come when we beat the world with the tips of our fingers." (Fujihara)

"With sufficient education and technical training oriental labour can produce most of the articles which the West has been accustomed to regard as its own monopolies. At present the products of the industrialised East are mainly destined for Oriental markets, in which Japanese goods have already obtained a predominant position in many branches of trade; but once home needs are satisfied, there is nothing

1. *Pandit Jawaharlal Nehru* : "All our progress, political, social and economic, ultimately depends on the level of real education reached by the masses of our people If illiteracy is not removed, our people remain blind men groping in the dark, swept hither, and thither by waves of sentiment and often exploited by others. Every reform will founder on this rock of illiteracy."

2. *Report on Labour in India*, p. 27.

3. There are ten times in India.

but tariffs and quotas to prevent the export of Eastern manufactures to other continents."

The problem is vast, for some 260 millions over 5 years of age have to be educated in 645,000 towns and villages with a population under 2,000 each of which would need one or more than one teacher. But all provincial governments since the inauguration of the New Constitution from 1st April, 1937, have been anxious to increase the pace of literacy in the country and the United Provinces has taken the lead by launching a vigorous campaign to liquidate illiteracy. Literacy pledges have been signed (January 1939) by a large number of persons including the Governor of the province and all the prominent leaders are united on this question.

Change in Outlook.—At the same time a great responsibility rests on our educated young men. The youth of the country is her greatest force, they can make her rich or poor, as they will. In the words of Professor Marshall[1]:

> "If India had a score or two of men like Mr. Tata, and some thousands of men with Japanese interest in realities, with virile contempt of mere speech-making in politics and law courts; and with no scorn for work on things while the mind was full of *thoughts*, India would soon be a great nation. Nothing could stop her: no tariff could hinder her: she would enter into her heritage. But so long as an Indian who has received a high education generally spends his time in cultured ease; or seeks money in Indian law suits — which are as barren of good to the country as the sand of the seashore—nothing can do her much good; so long as, with the exception of Bombay cotton which after all is of Parsee origin and a few works of which Mr. Tata's are at the head, all enterprise seems to be in European hands, in spite of the fact that the unhealthiness of India for the young children is in effect a protective duty of perhaps of 50-100 per cent. in favour of Indian enterprise in India as against European. For twenty years I have been urging on Indians in Cambridge to say to others: "How few of us when we go to the West think of any other aim save that of our *individual culture* ? Does not the Japanese nearly always ask himself in what way he can strengthen himself to do good service to his country on his return ? Does he not seek real studies ? Does he not watch the sources of Western power ? Is not that the chief reason for Japan's quick progress ? Cannot we imitate her ? Do we need any other change than like the Japanese to think of our country in the first place and ourselves a long way behind ?"

1. *Memoirs of Alfred Marshall*, by A. C. Pigou, p. 472.

APPENDIX I.

Part I.

Labour measures passed during the years 1932 to 1937

(*a*) CENTRAL.

1. Employers and Workmen (Disputes) Repealing Act, II of 1932.
2. Trade Disputes (Amendment) Act, XIX of 1932.
3. Tea Districts Emigrant Labour Act, XXII of 1932.
4. Children (Pledging of Labour) Act, II of 1933.
5. Workmen's Compensation (Amendment) Act, XV of 1933.
6. Land Acquisition (Amendment) Act, XVI of 1933.
7. Trade Disputes (Extending) Act, XIII of 1934.
8. Indian Dock Labourers' Act, XIX of 1934.
9. Factories Act, XXV of 1934.
10. Indian Mines (Amendment) Act, V of 1935.

*11. Factories (Amendment) Act, XI of 1935.

12. Payment of Wages Act, IV of 1936.

*13. Factories (Amendment) Act, VIII of 1936.

*14. Indian Mines (Amendment) Act, XI of 1936.

*15. Workmen's Compensation (Amendment) Act, VIII of 1937.

*16. Payment of Wages (Amendment) Act, XXII of 1937.

(*b*) PROVINCIAL.

17. Bombay Maternity Benefits (Amendment) Act, V of 1934.
18. Bombay Trade Disputes Conciliation Act, IX of 1934.
19. Bengal Workmen's Protection Act, 1934 (IV of 1935).
20. Madras Maternity Benefits Act, VI of 1935.
21. Central Provinces Maternity Benefits (Amendment) Act, XXII of 1935.
22. Central Provinces Adjustment and Liquidation of Indusrial Workers Act, V of 1936.
23. Central Provinces Protection of Debtors Act, IV of 1937.
24. Central Provinces Unregulated Factories Act, XXI of 1937.

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*Not related to the Labour Commission's Recommendations.
Bulletin No. 61 of Indian Industries and Labour.
Indian Labour Legislation, 1932-37, p. 53.

Part II.

Other measures passed during the years 1932 to 1937, implementing the recommendations of the Labour Commission.

(*a*) CENTRAL

1. Code of Civil Procedure (Amendment) Act, XXI of 1936.
2. Code of Civil Procedure (Second Amendment) Act, IX of 1937.

(*b*) PROVINCIAL

3. United Provinces Prevention of Adulteration (Amendment) Act, XIII of 1932.
4. Punjab Relief of Indebtedness Act, VII of 1934.
5. Bihar and Orissa Municipal (Amendment) Act, III of 1935.
6. Madras Prevention of Adulteration (Amendment) Act, XIX of 1935.
7. Bombay Prevention of Adulteration (Amendment) Act, XXIII of 1935.

Part III.

Labour measures under consideration.

1. Burma Oilfields Labour Bill, 1935.
2. Trade Disputes (Amendment) Bill, 1936.

Bulletin No. 61 of Indian Industries and Labour. Indian Labour Legislation, 1932-37, p. 54.

LECTURE IX

PROTECTION AND THE STATE

We may in this lecture consider the question of Protective Tariffs and the State. By this is meant not only the relationship between the machinery of tariff investigation and Government[1], but how the working of protective tariffs has affected Government revenues.

State Revenue—an important consideration.—Now to begin with, it must be borne in mind that the consideration of Government revenue has always been a most important consideration not only during the course of a tariff inquiry, but before Government puts up proposals before the legislature. In this connection it would be well to recall that while accepting in 1923 the principle that the fiscal policy of the Government of India may legitimately be directed towards fostering the development of industries in India, Government laid down the limitation "that in the application of the above principle of protection regard must be had to the financial needs of the country and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenues".

It is one of the directions to every Tariff Board to give due weight to this consideration and every report of the Tariff Board is examined by the Finance Department of the Government of India from this point of view. Thus it is a regular feature of all budget speeches of the Finance Member to allude to changes in revenue as a result of new tariff proposals. It is not easy, however, to estimate the exact effect of protective tariffs on the State revenue. A question was asked in the Legislative Assembly in 1934 as to the cost of protection in the case of iron and steel, cotton, paper and sugar industries. The Government regretted that no information was available[2]. The office of the new Economic Adviser to Government of India is now said to be engaged in such an inquiry and the results are awaited with interest.

Protection and Revenue.—Since the last War the customs revenue has played an important part in the finances of the Central Government. The needs of war finance and the post-war financial

1. See below, p.
2. *Legislative Assembly Debates, Official Report,* 26th January, 1934, p. 151.

deficits have resulted in a marked tendency of greater and greater reliance on customs duties. From 16·8 per cent. in 1913 the proportion of customs to total Indian revenue has risen to 50 per cent. in 1937. The growth of revenue from customs is shown below[1] from 1923-24 to 1935-36. It is clear that the revenue has been continuously increasing till the year 1929-30 after which, probably owing to the world wide factor of economic depression, it suffered a large short fall in 1930-31 and again a small short fall in 1931-32. The year 1932-33 witnessed a marked improvement over the previous years but the rise was not maintained in 1933-34 after which again the increasing tendency became visible.

Years		Customs Revenue in Rupees.
1923-24	...	39,69,64,296
1924-25	...	45,75,31,516
1925-26	...	47,77,95,049
1926-27	...	47,38,10,721
1927-28	...	48,21,41,872
1928-29	...	49,28,00,804
1929-30	...	51,27,66,229
1930-31	...	46,80,76,245
1931-32	...	46,43,66,526
1932-33	...	51,95,17,460
1933-34	...	47,16,41,385
1934-35	...	52,67,41,915
1935-36	...	54,11,48,975

The income from import duties levied for protective and revenue purposes constitutes a large portion of the total returns from customs revenue. The figures for the corresponding years are given below[2].

Years		Import Revenue in Rupees.
1923-24	...	31,77,80,697
1924-25	...	39,00,79,588
1925-26	...	39,31,89,766
1926-27	...	39,96,41,028
1927-28	...	40,46,16,908
1928-29	...	40.92,06,873
1929-30	...	40,72,81,494
1930-31	...	37,29,48,994
1931-32	...	36,07,89,028
1932-33	...	41,90,38 615
1933-34	...	35,68,36,610
1934-35	...	38,84,32,853
1935-36	...	39,01,32,048

1. Compiled from various issues of *the Statistical Abstract for British* India.
2. *Ibid.*

It will be seen that the variations in imports revenue closely follow the variations in total customs revenue. Import revenue kept rising from 1923-24 to 1929-30 and then declined till 1933-34 with the exception of a marked rise in 1932-33, the peak year from the point of view of income from import duties. In 1935-36 the revenue stood again at the same level as in 1924-25.

The following table gives a detailed account of the revenue yield from the protective import duties for the two years 1934-35 and 1935-36.

Protective Import Duties[1]

	1934–35	1935–36
	Rs.	Rs.
Wheat and wheat flour ...	...	11,104
Broken Rice ...		11,51,794
Sugar ..	3,81,34,510	3,24,31,212
Heavy Chemicals ...	22,858	14,429
Iron and Steel ...	78,59,836	90,96,066
Silver wire, thread and other manufacture ...	4,26,901	5,05,714
Paper and Stationery ...	21,25,891	22,93,301
Raw Silk ...	30,68,622	33,45,417
Silk yarn and thread ...	20,08,084	21,58,906
Cotton yarn and thread ...	32,57,956	40,83,165
Cotton fabrics of British manufacture	2,87,26,067	2,24,65,170
Cotton fabrics not of British Manufacture ...	2,58,37,702	3,30,23,606
Silk fabrics ...	88,96,295	67,59,974
Cotton hosiery ...	27,51,738	15,98,675
Artificial silk fabrics ...	1,10,56,699	1,36,90,848
Fabrics of artificial silk mixed with other materials ...	26,53,994	17,30,640
Other textile manufactures ...	49,15,263	42,40,152
Matches, match splints and veneers...	23,136	7,310
Wood Pulp ...	11,00,901	8,66,383

Short and long term effects of Protective Duties on State Revenue.—From the very nature of protective duties—since their object is to restrict imports of foreign articles—they should in the short period, generally speaking, result in a partial and, in the long run, a complete loss of revenue accruing from these duties. This, in fact, is not only to be expected but to be welcomed, if the protective tariff is to be effective in helping the home industries against foreign competition.

1. *The Statistical Abstract for British India*, 1938, p. 409.

As home industries develop, the loss of revenue, partial or total, is the cost that the country willingly bears for industrialisation and economic planning on sound lines. These must more than compensate whatever the loss of State revenue by the ultimate increase in national income and even in the short period, diminution in revenue from protective duties is met either completely or largely by the normal growth of revenue under other heads such as income-tax, railway freights, excise duties (if levied), import duties on machinery and other articles (often imported in place of the protected commodity).

Moreover, some variations in customs revenue are always to be expected even if the tariff is not a protective but a revenue tariff. For instance, the revenue import duty on sugar of 15 per cent. yielded the unprecedentedly large return of Rs. 6½ crores in 1921-22, but in 1922-23 was estimated to yield on the increased duty of 25 per cent. Rs. 6¼ crores only[1].

Again in 1923-24 owing to the high price of cotton and a fall in the price of cotton cloth in the internal markets there had been a reduced output in the mills and a short fall of about Rs. 60 lakhs under excise duty on cotton manufactures was budgetted[2]. In 1925-26 the yield from sugar duty showed a substantial increase (Rs. 1,30 lakhs), but in 1926-27 there was to be some diminuation which, however, was compensated by increased receipts from duty on cotton piece-goods[3].

A major factor affecting the revenue position has been the recent economic depression which admittedly hit an agricultural country like India more than industrial countries and caused a serious shortage in State income. The financial crisis was averted by means of emergency taxation in which a surcharge of 25 per cent. was levied on the protective duties thus increasing the amount of protection and accelerating the process of complete loss of revenue from this source.

Actual working of Protective Duties—How the protective duties have actually affected the State revenue may now be seen, as far as permitted by the statistics available, with reference to some of the principal industries namely iron and steel, cotton and sugar.

1. Budget speech of the Hon'ble Sir Basil Blackett. *Indian Legislative Assembly Debates, (Official Report)*, 1st March, 1923, p. 2927.
2. *Ibid.*
3. *(Official Report) Indian Legislative Assembly, Debates* Vol. VII, 1926, pp. 1982 and 2004.

The following table shows the Working of Protective Special duties on Iron and Steel.

Protective Special Duties—Iron and Steel

Iron and Steel	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
A. Liable to additional duties of British manufacture	40,55,156	49,90,022	39,28,966	26,20,511	14,47,063	24,18,388	38,58,431
Liable to additional duties not of British manufacture	1,02,84,697 1,43,39,853	77,77,530	66,50,741	47,61,727	26,58,179	22,06,201	23,74,886 62,33,317
Not liable to additional duties	1,53,07,476	134,77,485	107,43,422	69,57,121	74,69,777	63,50,305	21,92,073
B. Duty on Government Stores (including imports by State Railways)							
Liable to protective duties of British manufacture	4,18,182	6,07,918	3,24,271	62,483	94,256	31,070	28,494
Liable to protective duties not of British manufacture	5,57,086 9,75,268	5,07,752	1,63,317	65,582	27,118	5,977	10,349 38,843
Not liable to additional duties	18,34,005	6,27,441	1,65,895	32,124	55,627	25,558	41,146

In this table the figures are given from 1927-28 to 1933-34, the latest figures being not available. The table shows that the return from iron and steel which is liable to additional duties on private account has fallen considerably. In 1927-28 the protective revenue yield was Rs. 1,43,39,853 and in 1933-34 it came down to Rs. 62,33,317. The fall is more appreciable in the case of imports of non-British origin. Here the revenue yield in 1927-28 was Rs. 1,02,84,697 while in 1933-34 it came to Rs. 23,74,886. Also there is a fall in the case of iron and steel not liable to additional duties. In this case, in 1927-28 the yield was Rs. 1,53,07,476 and in 1933-34 it was only Rs. 21,92,073.

In the case of duty on iron and steel which is purchased by the Government the revenue yield has fallen both in the case of British and non-British origin liable to protective duties. In 1927-28 it was Rs. 9,75,268 and in 1933-34 it had fallen to Rs. 38,843. The stores policy of the Government is also to a certain extent responsible for this fall. Thus in the case of iron and steel the duty on the whole has proved to be effective.

Cotton.—The following table shows the protective duties realised from imports of cotton yarn and piece-goods in India[1].

1. *The Indian Cotton Textile Industry, Annual*, 1937, by M.P. Gandhi, p. XIII.

(000' omitted)

Year.	Cotton yarn and thread. Rs.	Cotton fabrics of British manufacture Rs.	Cotton fabrics not of British manufacture. Rs.
1931-32	37,22	1,80,16	1,90,72
1932-33	54,87	3,00,49	3,52,16
1933-34	40,17	2,10,42	2,50,44
1934-35	32,58	2,87,26	2,58,38
1935-36	40,83	2,24,69	3,30,24
1936-37	24,46	1,67,48	2,94,64

The statistics speak for themselves. There is a continuous fall in the protective revenue from the year 1933-34 in the case of cotton yarn and thread. In the case of cotton fabrics of British manufacture the fall in the protective revenue yield commenced from 1934-35, but revenue from cotton fabrics of non-British origin registered a small decline in 1936-37 only. This was referred to by the Finance member in his budget speech of Saturday, the 26th February, 1938 when he pointed out that there was a large short-fall of Rs. 35 lakhs under cotton fabrics not of British manufacture[1] during the year 1936-37. Further he mentiond that this decline in revenue from cotton piece-goods continued into the current year 1937-38. The actual decreases in revised estimates for these items as compared with the budget estimates are as follows[2]:

Cotton fabrics of British Manufacture Rs. 59 lakhs.
" " not of " " Rs. 70 lakhs.

The decrease under "cotton fabrics not of British manufacture" was of course due to the war between Japan and China. But the most noticeable fact was that British piece goods did not participate in the resultant advantage to Japan's competitors in the Indian market.

SUGAR

In regard to sugar, as stated by the Finance Member, the success of the protective policy has been the main cause of the Government's budgetary difficulties. In 1930-31 the State revenue was over Rs.10½ crores, in 1932-33 about Rs. 7 crores in 1933-34 Rs. 4·7 crores and in 1934-35 only Rs. 3·8 crores. In order to make up for this great loss in revenue an excise duty of Rs. 1-5as. per cwt. was levied on

1. *Indian Legislative Assembly Debates,* (Official Report), Vol II, 1938, p. 1233.
2. *Op. Cit.*

sugar manufactured in India which yielded a sum of Rs. 97 lakhs in 1934-35. In 1935-36 the revenue from sugar imports declined to Rs. 3·24 crores, but from excise duty improved to Rs. 1·6 crores. With the considerable fall in the volume of sugar imports the revenue from import duty fell in 1936-37 to Rs. 44 lakhs but the excise duty owing to its increase from Rs. 1-5 to Rs. 2 per cwt. yielded over Rs. 2½ crores. The figures for 1937-38 are Rs. 25 lakhs and Rs. 3·3 crores respectively. Thus the revenue from sugar which aggregated Rs. 7 crores in 1932-33 was reduced to almost half in 1937-38. This loss of Rs. 3½ crores is, however, fully made up even on conservative estimates by the gain under other heads, *viz.*, income-tax, import duty on machinery and railway freights for carrying sugar-cane and sugar.

MATCH

In October 1926, the Tariff Board recommended protection to the Match Industry. The findings of the Board were accepted by the Government and the Match Industry Protective Act was passed in 1928. The following table shows the position of customs revenue from this industry both in pre-protective and protective period :

Import duty on Matches

Under Special duties :

1923-24	1924-25	1925-26	1926-27	1927-28
Rs.	Rs.	Rs.	Rs.	Rs.
1,38,01,105	1,15,73,126	1,13,18,557	88,63,594	52,44,651

Under Protective duties :

1928-29	1929-30	1930-31	1931-32	1932-33	1933-34
24,21,567	13,67,576	3,74,960	1,08,078	40,013	29,494

Import duties on Match splints and veneers

Under Special duties:

1923-24	1924-25	1925-26	1926-27	1927-28
Rs.	Rs.	Rs.	Rs.	Rs.
...	10,11,927	5,11,329	54,631	1,27,428

Under Protective duties :

1928-29	1929-30	1930-31	1931-32	1932-33	1933-34
1,05,997	26,670	62	52	541	93

	1934-35	1935-36
	Rs.	Rs.
Matches, match splints and veneers.	23,136	7,310

It is interesting to note that in the case of matches the revenue duty realised in pre-protective year 1927-28 was Rs. 52,44,651, but it came down to Rs. 29,494 in 1933-34. In the case of match splints

and veneers the revenue yield has declined the most. In 1928-29 the yield was Rs. 1,05,997 but in 1933-34, it was only Rs. 93. In the years 1934-35 and 1935-36, the protective revenue yield from matches, match splints and veneers all taken together was Rs. 23,136 and Rs. 7,310 respectively. The figure for 1936-37 and 1937-38 is the same at Rs. 7,000.

At the same time we find that the yield from excise duty on matches has increased. In 1935-36, it amounted to Rs. 2,02,81,306 and in 1936-37 Rs. 2,30 lakhs as against Rs. 1,36,66,635 in 1934-35.

These facts taken together again confirm the complete effectiveness of the protective tariff and the making up of direct loss in revenue in indirect ways of which the most important in the case of matches is income from excise duty.

State and Tariff Board.—Another subject of considerable importance to which reference was made at the outset is the relationship between the machinery of tariff investigation and Government. While accepting the policy of discriminating protection, Government had decided that 'a Tariff Board should be constituted for a period not exceeding one year in the first instance, that such Tariff Board should be purely an investigating and advisory body and should consist of not more than three members one of whom should be a Government official, but with power, subject to the approval of the Government of India, to co-opt members for particular inquiries'.

It is axiomatic to state that the protection granted to any industry must be just adequate and neither *in excess* nor *in defect* of the requirements. For if protection is in excess, it means not only an undue burden on the consumer, but definite demoralisation of the industry; while if protection is not enough, the industry is not helped and the consumer is called upon to bear a burden without a compensatory advantage. It is, therefore, absolutely essential that the machinery of the tariff inquiry must be most efficient and the Tariff Board must not be used as an instrument either for training individuals or for satisfying their political aspirations, but it must necessarily be a permanent institution composed of members selected for their proved merit whose experience of one tariff inquiry after another must be utilised for the service of the national and not sectional interests.

The present policy of appointing *ad hoc* Tariff Boards for particular industries often with new members, from time to time, and avoiding tariff inquiries, as far as possible, has neither met with public approval nor can be justified on purely scientific or economic grounds. A permanent Tariff Board would not only have the advantages mentioned above, namely that it would be more efficient, have greater experience and inspire more public confidence, but it could also render the most valuable service of examining periodically the working of protective tariffs and producing scientific intelligence—a sore need at the present time—which could form the basis of future progress and help in the avoidance of much waste and the practice of economy. In the words of Sir William Beveridge, "the Tariff Board should serve as the Economic Intelligence Staff of the country and may even in due course pave the way for the establishment of a department charged to devise necessary social and industrial adjustments that are intended to prevent the very occurrences of a wide-spread or long-continued involuntary wagelessness[1]." How much more is this necessary in the case of a country of the size, population and economic backwardness of India. The President of the Indian Economic Association in 1929 had also suggested the conversion of the Tariff Board into a National Economy Board[2].

At the same time, in view of the many—agriculturist, manufacturing, labour, capitalist—interests involved in the grant of protection and the rights of the people and the obligations of the State, the industry which enjoys protection must be subject to and able to satisfy all public scrutiny and criticism, and no relevant information concerning the inquiry should be withheld by Government. It was for this reason that the Fiscal Commission had strongly urged the desirability of the tariff inquiries being open to the public and of the tariff reports being immediately published for public information and criticism.

Sir Cambell Rhodes in the Legislative Assembly laid great stress on the prompt publication of Tariff Board reports and pointed out as a member of the Fiscal Commission that the Commission attached very great importance to the recommendation contained in paragraph 303 of the report."......There is one point in connection with the inquiries and reports of the Tariff Board on which too great stress cannot be laid. This is the need for the utmost publicity. Publicity will

1. *English Local Government* by S. & B. Webb, Vol. II, p. 715.
2. Mr. N. S. Subba Rao's suggestion in his *Presidential Address of the Indian Economic Conference*, held at Allahabad in 1929.

ensure full consideration being given to all interests affected. Publicity will also inspire confidence and remove the possibility of suspicion that recommendations are based on any thing but the public interests. The case for industry should be stated with perfect frankness and lucidity, so that the public may be in a position to form its own judgment...........The Government should publish the results of the inquiry promptly, whether it agrees with the conclusions of the Board or not[1] ".

1. *Indian Legislative Assembly Debates, Official Report,* Vol. IV, 1924, p. 2173.

LECTURE X

Protection and the Economic Development of India

The foregoing lectures bear ample evidence, from all points of view, *viz.*, production, consumption, imports and tariffs, to the rapid progress of the protected industries. This fact was also stressed by His Excellency the Viceroy in his speech to the Tenth Industries Conference recently held in Bombay.

"By their (Government of India's) control of tariffs, and in pursuance of the policy of discriminating protection which was accepted as the result of the recommendations of the Indian Fiscal Commission many great industries—steel, cotton, textiles, paper, sugar—have been built up. By their stores purchase policy, under which a definite preference is shown by Government, in their purchases undertaken to meet the needs of the public services, to articles of indigenous manufacture, Government have done much to assist many large and small Indian industries. The extent of these purchases is not perhaps widely realised as it should be. During the ten years from 1928-29 to 1937-38 articles wholly or partially manufactured in India were purchased for the Government to the extent of 23 crores of rupees.

The Indian Stores Department exercises constant vigilance to prevent the purchase from abroad of articles which can equally well be obtained in India and has succeeded in diverting to indigenous sources of supply many demands which can be met from Indian markets, but which might otherwise have been filled from elsewhere[1]."

Taking the Capital Index of Industrial Activity (with 1935 as base equalling 100) the cotton manufactures rose from 92 in 1932-33 to 117 in July 1938, and steel ingots from 68 to 122, paper from 85 to 130, and coal from 87 to 118 in the same period. The general index was 81·3 in 1932-33 and 112·8 in July 1938.

1. *The Statesman*, Delhi, 24th January, 1939, p. 13.

Capital monthly indices (1935 = 100)[1].

Year.	Cotton manufactures.	Steel Ingots.	Pig Iron.	Paper.	Coal.	General Index.
1932-33	91·7	68·2	60·3	85·	86·6	81·3
1933-34	85·2	83·4	76·2	92·4	87·2	87·3
1934-35	97·2	96·7	92·5	94·3	99·9	97·1
1935-36	100·5	102·0	106·2	101·8	99·9	100·6
1936-37	103·2	99·8	107·0	102·4	96·1	105·2
1937-38	114·1	106·9	113·4	108·6	112·3	111·8
1938-39						
April	123·3	113·6	125·1	122·6	124·1	111·2
May	123·0	116·2	123·8	123·7	113·2	112·0
June	116·5	109·4	76·4	128·2	116·7	108·0
July	117·3	121·6	72·0	130·7	117·8	112·8

This is obviously rapid progress, but it becomes all the more remarkable, when it is borne in mind that such results have been realised in a short period of seven years—protective tariff itself began barely fifteen years ago—and the industries have developed in spite of the world-wide economic depression by which India was specially stricken.

The question as to what constitutes a reasonable period for the policy of protection to fructify is answered by the eminent American economist, Professor Taussig as follows :

> "Further, the length of time to be allowed for the experiment should not be too brief. Ten years are not enough, twenty years may be reasonably extended, thirty years are not necessarily unreasonable. When writing of the earlier stages of United States tariff history, I intimated that the first sharp break, in 1810-20, from the established ways of industry, and the very first ventures in new paths, were sufficient to give the needed impetus, and that thereafter protection might have been withdrawn. An opinion of this sort I should not now support. What has already been said of the tenacity of old habits and the difficulties of new enterprises justifies the contention that a generation, more or less, may elapse before it is clear whether success has been really attained."

As regards the progress of Indian industries even in economic depression, there can be no better testimony than that of the Hon'ble Finance Member of the Government of India. Speaking on the

1. *Capital*, November 10, 1938. p. 653.

Budget for 1934-35, Sir George Schuster made the following significant statement :—

"In the first place it is fair to claim that as a result of Government's industrial policy, this period of world depression when to take only one instance, the steel production in the United States fell at one time to 10 per cent. of its capacity, has actually been a period of industrial expansion in India. Speaking in a recent debate in the Assembly, I gave some illustrations of this from the main industries. Taking the index figure of industrial activity in the year 1928 as 100, I pointed out that as regards textiles for the first ten months of 1933, while the United Kingdom, the United States of America and France all showed falls ranging up to 25 per cent., India showed in the same period an increase of 41 per cent., as compared with an increase of 34 per cent. in Japan. Also taking steel production, as another illustration, while the United States in 1933 showed a reduction of 54 per cent. and France and the United Kingdom reductions of 30 and 20 per cent. respectively, India showed an increase of 75 per cent. as compared with an increase of 55 per cent. in Japan.

At the same time, other industries have been growing remarkably. The sugar industry is a case in point. By 1935 it is estimated that we shall produce in India the whole of the white sugar which used to be imported from Java, and indeed, as I have already said, there is now a danger of this process going too fast and too far. Let me quote yet another interesting example. The consumption of cement in India has increased from 387, 932 tons in 1924 (Indian production 263, 746 tons, imports 124,186 tons) to 689, 515 tons in 1933 (Indian production 625,860 tons, imports 60,655 tons). At the same time there is no doubt that in the last two years, partly aided by the high level of our revenue duties, there has been a general and marked development of minor industries in India. The Indian Stores Department, which is constantly encouraging this development, though its work does not receive the recognition which it deserves, can give interesting illustrations of this. Thus they report that marked developments are now going on in Indian industries manufacturing a wide range of articles such as electric lamps, and all kinds of electrical appliances, rubber tyres, water-softening plant, cooking stoves, asbestos cement products, paints and enamels—to mention only a few instances, while in recent years there have been well-known developments in the Indian manufacture of railway rolling stock, bridge work

and heavy structures in the case of which India is now able to manufacture all her requirements. Apart from these actual developments many new projects for the establishment of important factories are now under consideration.

Now all this is in accord with a policy deliberately adopted by Government—the essential idea being that, if the standard of living is to be raised for the increasing population of India, industrial employment must be expanded to supplement the agricultural opportunities of the country.[1]"

Misapprehensions.—Such indeed has been the success of the Indian industries under protective tariffs that it has given cause for anxiety and alarm to exporting interests in Great Britain. Commenting on Sir Thomas Ainscough's report on 'Conditions and prospects of United Kingdom trade in India (1937-38)' the Financial Times observes, "whether or not India's policy in setting up her own heavy industries can be justified from a theoretical stand point, it will certainly, if persisted in, involve adjustments painful in the extreme both to the exporting nations and India herself. The game in fact is not worth the candle." As for the remedy the paper points out that the use of the political big stick in retaliation is from every point of view unthinkable. "The only method is persuasion, so that India shall substitute a policy of industrial evolution for one of revolution".

Sir Thomas Ainscough, in his report, asks the manufacturers and exporters in the United Kingdom to face the issue squarely. In two years India has lost her lead as the greatest market in the world for United Kingdom goods and now ranks third behind South Africa and Australia. Certain goods are rapidly declining in importance as imports into India and thereby as a source of revenue through customs duties for the Indian Government.

This in Sir Thomas Ainscough's view is likely to impair India's financial structure, which is based on a large export of primary commodities and an import of manufactured commodities whose customs duties provide a large part of the Government of India's revenue.

On the other hand, the Indian Chambers of Commerce have repeatedly complained that the policy of discriminating protection is now out of date, that it has proved dilatory in its working, and that it is time that it were liberalised, since the triple conditions laid down by

1. *Indian Legislative Assembly Debates, Official Report,* Vol. II, 1934, pp. 1525-26.

the Fiscal Commission for the award of protection are stringent and need relaxation. It is not necessary, for instance, that there should be an abundant supply of raw material at home, it is enough if such a supply is available from any where on terms which make the manufacture possible as an economic proposition. Japan ranks third in shipping industry, in spite of the fact that she imports raw material for manufacture, the first two countries being the United Kingdom and the United States of America which also are large raw material importing countries.

That no economic development of a decade in India is so striking as the rise of the main protected industries of iron and steel, cotton, paper and sugar, may, of course, be admitted. Had there been no protection, it seems hardly likely that these industries would have progressed in the way that they have progressed. On the other hand, India would have suffered the unfortunate experience of higher prices, greater pressure on agriculture and more unemployment.

But all the progress that the Indian industries have made pales into insignificance in comparison with the industrial advancement of western countries namely, England, United States of America, Japan or Germany. It is certainly not for any one of these countries—much less for Great Britain—to describe the growth of industries in India as 'revolutionary'. It is still for India to achieve a stage of industrialisation which will free her increasing population from the double curse of unemployment and poverty.

The argument of loss of revenue or of the danger of adverse balance of trade need not detain or deceive any one. It is manifestly futile. Nor need it alarm Great Britain. The progress of industrialisation, if sufficiently rapid and adequate, should raise the Indian standard of living and thereby increase and not diminish foreign trade of which England as India's friend may well have a leading share. The volume of the trade must eventually increase although its composition may alter.

Obligations and Safeguards.—On the other hand, in the interest of the nation, the protected industries must be subject to well defined obligations and the interests of the labourer and the agriculturist must be duly safeguarded. The State must guarantee minimum prices for the agricultural products consumed by industries receiving State protection and minimum wages for the workers and make strict rules in regard to dividends and reserves. During the last fifteen years a

number of industries have on occasions made huge profits, but they have gone largely to share-holders and capitalists and not, as they should have, to agriculturists, labourers and reserves.

For instance, the price of raw cotton fell by nearly 32 per cent. between March 1937 and March 1938, but there was no change in the price of cotton piece goods in India. In other words, this meant large profits to manufacturers. It also meant that the cultivator was hit in two ways, the price of his raw cotton declined, while he had to pay the same and in some cases higher prices for the cotten piece-goods which he purchased. If the latter had also fallen, consumption would have greatly increased and the consumer, particularly the villager, would have benefitted. Some control of prices of agricultural products seems in such cases essential, as the poor agriculturist is not otherwise cared for and he is not yet strong enough to take care of himself.

It is also necessary that in a period of boom Indian industries, particularly those enjoying protection, should consolidate and organise themselves which they have not so far done to the extent they could or should have done. For instance cotton has had unusual prosperity in 1937-38 due to several reasons, *viz.*, weakening of Japanese competition owing to Sino-Japanese War; fall in price of raw cotton by 32 per cent. between March 1937 and March 1938; much larger income of agricultural population in the boom of late 1936 and early 1937; increased purchasing power leading to greater demand for cotton goods; production of finer varieties and widening of range of goods leading to increased demand for cotton goods; and reduction in costs of production as a result of better manufacturing efficiency and organisation.

All these factors increased the margin of profit. Prudent management should have meant more rationalisation and consolidation and proper State control would have enabled the weaker parties of the industry, *viz.*, agriculturists, labourers and consumers to share duly in the prosperity of the industry.

Protection not an end but a means.—Lastly, successful though the working of protective tariff has proved to be in India, it must be viewed as part of a comprehensive plan, if the economic resources of India are to be mobilised to their utmost capacity. As pointed out by the late Sir Basil P. Blackett, "We cannot usefully regard protection as an end in itself. Protection is one of the many means for creating that many-sided India which we have in view, and therefore in

commending this Bill to the Assembly I would like to add to it this request that all those who are interested in the furtherance of Indian industry should turn their minds at the same time to the other directions in which progress is required, progress in banking, progress in education, specially technical education, and the other directions which are necessary to create the men who are to take part in creating the industry which this Bill is destined to establish firmly on its feet."

Progress in Industrial Finance.—Obviously there is urgent need for the development of a capital market with a clear, in place of the present confused, distinction between long term and short term capital. For instance, the capital required for building purposes should be provided in some parmanent form, while working capital is needed for short periods and should not be withdrawable at any moment. The volume of industrial preference and debenture issues should be increased and a market for them should be developed on sound lines.

Progress in Industrial Education.—A still greater need of the country is industrial education which should be interpreted in the widest sense and comprise not only the people but even more so the Government—both Central and Provincial. There is no dearth of cases in which governments in India have bungled in industrial schemes or toyed with the idea of industrialisation. The country lacks at present even industrial intelligence. A number of industrial surveys have been carried out in some provinces, but many are now out of date and some frankly worthless.

If industrialisation is to make satisfactory progress, industrial statistics and information should be properly collected and collated and each province should have an Industrial or Economic Development Board working in close liaison with the Economics and Science Departments of Universities. The conduct of industrial or economic surveys must be the business of competent economists and not left, as has sometimes happened, to ignorant or indifferent petty officials.

Conclusion—I think after a careful survey of the working of protective tariffs in India during the last 15 years, it can certainly be said that because of it the people of the country on the whole are richer, they are happier and more efficient, and that after all is the greatest testimony to the success of protective policy. There can be no doubt that the cultivators and labourers are better off with protection than without it, and they after all constitute the backbone of the nation.

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